THE WALT DISNEY COMPANY

1987 ANNUAL REPORT

1928

1988

FINANCIAL HIGHLIGHTS
(In millions, except per share data)

	1987	1986	Change
Revenues	$2,876.8	$2,165.8	+33%
Operating income	776.8	527.7	+47%
Income from continuing operations	392.3	213.2	+84%
Per share	2.85	1.57	
Net income	444.7	247.3	+80%
Per share	3.23	1.82	
Return on stockholders equity	27%	19%	
Cash provided by continuing operations	830.6	668.4	+24%
Stockholders equity	1,845.4	1,418.7	+30%
Per share	14.02	10.86	

To our owners and fellow Disney employees:

This year I am having trouble writing my letter for our annual report, and Frank Wells (our president and my partner) told me this morning if I do not complete it on my present airplane flight back to Los Angeles, our printers will be forced into overtime. One sets policy by example, so if Jeffrey Katzenberg, our chairman of The Walt Disney Studios, can be on budget and schedule with Disney and Touchstone films and television shows, I can get one letter completed on time.

I would *like* to say that the only reason for delay in writing this letter is my difficulty in communicating how well we have done without sounding too cocky, too confident and certainly too proud! How does one present an 80 percent increase in net income and pretend such improvement is nothing special?

But honestly, my delay has been caused by the numerous ice hockey games in which my 14-year-old son has played over the last two weeks in Southern California (four in one weekend, each 50 miles from the previous one) plus college interview time in four cities for my 17-year-old high school senior.

I now have no excuses. I am over the middle of our country looking down upon cornfields and thinking about the idea of Dick Nunis (our president of Walt Disney Attractions) and Jack Lindquist (our executive vice president of Creative Marketing Concepts) about renting a large field and cutting the crop to create the face of Mickey so that every person who flies over will be reminded about Mickey's 60th birthday. Have we gone too far? Jack, I don't think so!

The next few paragraphs, which outline Disney's accomplishments, are directed to Frank Wells' mother, Betty, and my mother, who must have wondered in 1955 how their sons would ever earn a living. Of course, Frank was at Oxford University as a Rhodes scholar, with reasonable prospects, while I was a 13-year-old sports fanatic. The answer, of course, is to get lucky and find a team of people... each much better than you... and pray. Then you'll earn a good living!

We really have done well this past year, with dynamic growth and progress in every area of our business: parks and resorts, film and TV, and consumer products.

Our figures are remarkable. The filmed entertainment segment achieved a 153 percent increase in operating income during the year. Consumer products had a 34 percent increase. Operating income from our theme park and resort operations at Walt Disney World and Disneyland was up 36 percent in 1987, contributing to a 34 percent compounded annual growth rate in operating income over the last five years.

We had record revenues of approximately $2.9 billion for the year, an increase over 1986 of 33 percent, and record net income of $444.7 million, an increase of some 80 percent (which I now have pointed out for the second time), all of which added up to earnings of $3.23 per share compared to $1.82 per share a year ago.

More significantly, we also showed a return on equity of 27 percent, compared to eight percent in 1984.

While we are sure Betty Wells and my mother are proud of these numbers and the countless individual achievements they represent, I hasten to add that Frank Wells, Gary Wilson and our entire management team are aware that the task we originally set for ourselves some three years ago has only just begun.

A number of people (I was on the top of the list) troubled by the so-called stock market "meltdown" in October have asked what impact, if any, recession would have on our plans or future performance. My answer in every case is that the fundamentals of our company are stronger than they have ever been and our past experience and current surveys encourage me to be optimistic about the future.

I am supported in my confidence by the views of several prominent industry analysts (professionals whom I admire enormously when they agree with me) that Disney is "recession resistant" if not "recession proof." One who summarized it best said, "Disney represents a haven of quality."

We plan to continue on our charted course, which calls for the aggressive and pragmatic pursuit of growth in stockholder values.

I suppose I should outline the records we broke in 1987, although the essence of our company is the feeling we get walking through Epcot Center and seeing families having the time of their lives... or laughing and crying during an episode of "The Golden Girls"... or sitting at Thanksgiving and watching 10 kids enjoying a Mickey and Donald Duck cartoon on The Disney Channel... or feeling and sensing enormous pleasure and amusement with an audience at our smash hit movie "Three Men and a Baby."

But records do say something: Our theme parks topped the 50 million mark for the first time ever; our movies were third in total box office gross, moving swiftly toward second (if "Three Men"

continues to do well), all the way up from 12th among the major studios in 1984; in home video we moved to second in the industry (up from sixth in 1985); at The Disney Channel, we continued to be the fastest-growing pay-TV service.

Meanwhile, in consumer products, we extended our worldwide lead, increasing the number of licensees to more than 3,000 covering 14,000-plus products in more than 50 countries.

In addition to these broad gains, 1987 will be recorded as the year we repositioned ourselves strategically to best grasp the opportunities of tomorrow.

Our long-range strategic plan consists of two elements: continued dramatic growth and success of our existing businesses (naturally) plus selective expansion into new related business areas.

With that as a backdrop, I believe 1987 will be remembered long into the future as the year in which we:

□ Signed our agreement with the French government to proceed with the development of Euro Disneyland (for those of you who plan to be stockholders into the 90's, and I assume that's everybody, our French project is very important, and for those of you who are studying French like I am, our park will be a great place to visit);

□ Sold Arvida Corporation, a community development operation (a good company but a business we should leave to others); we are in the entertainment, recreation and leisure-time business;

□ Agreed to purchase KHJ, Los Angeles, a major independent television station, our first venture into the realm of TV broadcasting outside The Disney Channel (a business we should be in and not leave to others) and one that we hope will be approved by the FCC;

□ Jointly agreed (with Industrial Equities, Ltd.) to acquire the Wrather Corporation, owner of the Disneyland Hotel (buying what most people thought we already owned) and contiguous Anaheim acreage;

□ Signed a 10-year strategic alliance with Sears, Roebuck and Company's Merchandise Group covering development of new Sears/Disney products, Sears promotion of Disney animated films and Sears sponsorship of major attractions at the Disney-MGM Studio Tour opening in 1989;

□ Developed a year-round program of tie-ins with McDonald's, which has agreed to be our partner in jointly beneficial promotional programs involving all parts of our business;

□ Opened our first three Disney retail stores outside theme park environments in preparation for a nationwide rollout (to use show business terms, "a boffo opening with good legs").

Chairman Michael D. Eisner

President Frank G. Wells

My experience in the entertainment industry is analogous to the sports world, where interest in last season is minimal. Anybody can win once, but the true champion wins over and over again. As a result, my Disney philosophy is simple:

We would rather be the Boston Celtics than the New York Giants. For the record, I was born in, lived in and worked in New York City. I was and still am a Giants fan. Since I now live in Los Angeles, I've become a Laker loyalist. So please, no letters!

Some of the seeds of growth sown over the past few years will come to fruition in 1988 and should help keep us a contender (to continue my sports reference) for growth. I'm thinking particularly about the opening of four major new facilities and attractions at Walt Disney World: The Grand Floridian Beach Resort (900 rooms and fantastic), the Caribbean Beach Resort (750 rooms in the first phase and our first moderate-priced facility), Pleasure Island (a most exciting nighttime Disney-style entertainment complex) and the Norway Pavilion at Epcot Center (the best and only backward-moving themed Disney ride – trust me).

All of these will add to the overall attractiveness of what is already the world's number one destination resort and will contribute substantial new revenue.

In addition, 1988 will witness at least six new Disney retail stores and many movies and television shows. I will not talk specifically about our movies for 1988 because talking or bragging about movies brings bad luck...but remember the name Roger Rabbit.

And on into 1989, we will have other new wonderful Disney projects that we hope will continue to place us in the Super Bowl – the Disney-MGM Studio Tour, Typhoon Lagoon, retail stores, movies, TV and some surprises we have not thought of yet.

Your company was the recipient of a number of honors and overly kind evaluations during the year, which I will list for fear you missed the original press releases.

As part of a continuing survey among its readers, the marketing research department of *The Wall Street Journal* issued a "corporate report card" in June that ranked leisure and entertainment companies in four categories: familiarity, quality of management, reputation and investment merit. By every measure, Disney surpassed all competitors, whose names will go unlisted because of prior, present and future friendships with our competitors.

Executive Vice President Gary L. Wilson

In October, *Business Week* searched what it calls its top 1,000 American companies to determine which are America's most competitive in terms of use of labor, use of capital and "the bottom line." Disney ranked third overall in use of labor and fifth overall in the bottom line category. No other entertainment company made the list of 42, which the magazine dubbed "America's Leanest and Meanest."

I consider this ranking a major tribute to all the Disney cast members, the dedicated and talented employee force that constitutes our company's greatest strength, but I would emphasize that Disney may be "lean"... but never "mean."

In December, we were named one of the five best-managed companies in the United States by *Business Month* magazine.

These honors are not directed at one individual. If Disney is one of the best-managed companies in America, it is because the entire management team and cast have blended their dreams, talents and dedication to the advancement of the enterprise we call Disney.

This past year has been a good one for The Walt Disney Company, and we are working to make next year even better. The foundation is set, the Disney name and consumer franchise are strong, the strategies are in place and we are ready to move forward to even better tomorrows.

But I do want to point out that managing a successful company, like managing a happy family, is difficult. It is easier to have children than to bring them up. It is easier to change diapers than to change schools.

We are, as corporations go, very young...in our adolescence, if you will...with much growth ahead of us.

I speak on behalf of Frank Wells, Roy Disney, Gary Wilson and all our cast members when I say I sincerely appreciate your past support.

December 8, 1987

Michael D. Eisner
Chairman and Chief Executive Officer

It was the most successful year in the history of Disney theme parks. More than 50 million people passed through the turnstiles of Disneyland, Walt Disney World and Tokyo Disneyland during 1987, surpassing all previous records.

Visitors to the U.S. parks responded to an intensive worldwide marketing, advertising and promotion program and a variety of exciting and innovative new rides and attractions to set all-time records. The advertising campaign was built around 1987's biggest sports winners, including Super Bowl quarterback Phil Simms, basketball's Magic Johnson, Minnesota Twins pitcher Frank Viola and America's Cup yachtsman Dennis Conner.

Richard A. Nunis
President, Walt Disney Attractions

Foreign visitors were lured in part by the bargain dollar, while domestic travelers discovered all over again the excellent entertainment value offered by Disney parks.

Ticket prices were increased during the year. Market research indicates that admissions historically have been underpriced. The surge in attendance confirmed guest surveys that Disney parks still offer unmatched recreation and entertainment at a reasonable cost.

> Disneyland, Disney World and Epcot are playgrounds for the whole nation. (This company has done pretty well–for a Mickey Mouse operation!)
>
> –George O. Ludcke, *The Wall Street Journal*, Nov. 2, 1987

A new major program launched at both U.S. parks during the year was the introduction of Disney Dollars. Issued in denominations of $1 (featuring Mickey) and $5 (Goofy), the Disney currency may be used for purchases throughout the parks. Many visitors use the bills as gifts or keep them as souvenirs.

WALT DISNEY WORLD

The successful promotion of its year-long 15th anniversary celebration was the major contributor to robust attendance at Walt Disney World in 1987. It featured the world's largest press gathering in history and a giant guest giveaway promotion in which prizes ranging from souvenirs to cruises to Chevrolets were given every 15 seconds to guests flowing through the park turnstiles.

May 1 proved to be a very special day as guest number 242,831,300 passed through Epcot Center's gates. At that moment–11:14 a.m. to be exact–the number of visitors to Walt Disney World since opening matched the population of the United States. Kent Robertson and his family from Collinsville, Ill., received VIP tours and a lifetime pass to the park.

The 50th anniversary and re-release of "Snow White and the Seven Dwarfs" was cause for summer celebrations at both the Magic Kingdom and Disneyland. A nationwide search for all the women who played Snow White in the parks over the last 30 years turned up 93 from across the country. Their simultaneous reunions at both parks in June received national media attention.

Soviet agriculture secretary Viktor Nikonov came calling in October to learn more about the innovative farming techniques being demonstrated at the Epcot Center's Land pavilion. Working with NASA, Land scientists have succeeded in growing soybeans and wheat in simulated lunar soil as part of a long-term program to develop a self-sustaining moon base in the 21st Century.

The Living Seas, the newest pavilion at Epcot, is also proving its value to science even as it entertains thousands daily. Researchers working with dolphins on five different projects are testing the animals' skills as communicators, and new efforts are being made to understand the decompression sickness that sometimes occurs to divers in shallow water.

It's becoming easier all the time to get to Walt Disney World. Disney's first Welcome Station opened in October on Interstate 75 in Ocala. It enables guests to make reservations and purchase tickets on the way. Earlier, in July, Delta became the official airline of Walt Disney World and now offers more flights than ever to Orlando.

October saw the debut of three major new entertainment attractions that will continue through 1988.

At Epcot Center, elephants and high wire and trapeze artists thrill 'em and chill 'em at three performances daily near Communicore.

Autumn dusk settles over Ferris wheel, centerpiece of State Fair on Disneyland's Main Street.


STATE FAIR '87
DISNEYLAND

At the same time, the Magic Kingdom celebrates the 200th anniversary of the Constitution through the summer with two shows. The All-American Parade on Main Street boasts 17 floats depicting American scenes from a New England lighthouse to California surfin'. America the Musical, a rousing song and dance review, stars Mickey and Minnie in colonial finery and a large cast of supporting Disney performers.

Two old favorites also returned by popular demand. One is Magic Journeys, a three-dimensional film experience that delighted almost 21 million Epcot Center guests before it completed its four-year run and was succeeded by Captain Eo at Kodak's Journey Into Imagination pavilion in late 1986. Magic Journeys reopened in December in the Magic Kingdom's Fantasyland, where it is being shown with "Working for Peanuts," a 1953 Donald Duck cartoon produced in 3-D but seldom seen that way until now.

A new nighttime spectacle premieres at Epcot Center in January. IllumiNations uses dazzling fountains, lasers, fireworks, sparkling lights and colorful projections on the pavilions and rooftops of World Showcase to take visitors on a trip "around the world." The largest show of its kind, IllumiNations is presented every evening.

Sounds of construction will continue to commingle with sounds of celebration in early 1988 as a number of major permanent attractions are readied for opening in coming months:

□ Norway, the Gateway to Scandinavia is scheduled to open in June. The 11th pavilion at Epcot's World Showcase will display Nordic culture in a quaint village of shops, cafes, exhibits and restaurants. In a ride reminiscent of Pirates of the Caribbean, guests will travel in replicas of Viking ships through Norway's seafaring history and into a violent storm that threatens a North Sea offshore oil platform.

□ Pleasure Island, a nighttime entertainment center featuring restaurants, comedy, dancing, music, rock-and-roller dancing, first-run movies and other entertainment attractions, is scheduled for a fall opening.

□ Television and motion picture production will begin at the new Disney-MGM Studios in the summer, to be followed by a studio tour, a separate ticketed attraction scheduled to open in 1989. One of the tour's features will be Great Moments at the Movies, a ride presented by Sears, Roebuck and Co., which will carry guests through exciting scenes from classic movies.

□ The Grand Floridian Beach Resort, patterned after the elegant turn-of-the-century Gulf Coast hotels, began accepting reservations for its summer opening.

□ Typhoon Lagoon will be the world's largest water park, with 50 acres of fun for kids and parents alike. Its focal point is a 95-foot-high mountain with nine water slides topped by a wrecked shrimp boat. Machine-created waves six feet high will roll and crash in a surfing section.

Construction will also be under way this year on attractions scheduled to open in 1989. One is the Wonders of Life pavilion, presented by the Metropolitan Life Insurance Co., slated for construction between the Horizons and Universe of Energy pavilions in Epcot Center's Future World.

THEME PARKS AND RESORTS

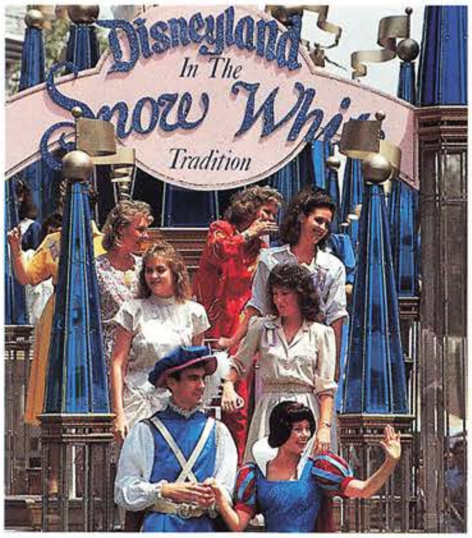
(In millions)	1987	Change	1986	Change	1985
Revenues	$1,834.2	+20%	$1,523.9	+21%	$1,257.5
Operating income	548.9	+36%	403.7	+58%	255.7
Operating margin	30%		26%		20%

Revenues and operating income in 1987 and 1986 benefited from higher attendance and per capita guest spending, which was primarily influenced by price increases.

The Company's total theme park attendance was up 9% from 1986.

Attendance at the Walt Disney World theme parks–Magic Kingdom and Epcot Center–was up almost 11% for the second straight year due primarily to the 15th Anniversary celebration and the continued benefits of national marketing campaigns. Attendance at Disneyland was up 7% from 1986 resulting from the successful openings of Captain Eo *and* Star Tours *and increased promotional efforts.*

Operating margins for the segment continued their dramatic rise to 30% compared to 26% in 1986 and 20% in 1985. Margins have benefited from higher revenues and continued cost controls over operating labor hours and rates.



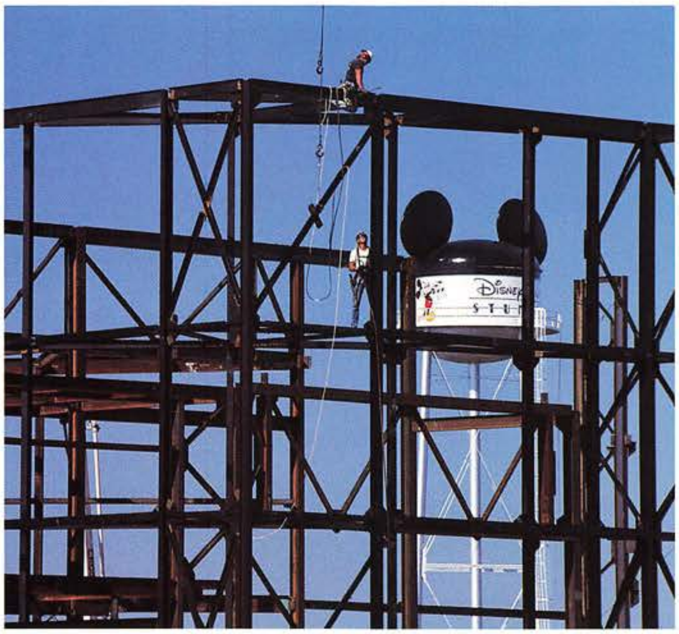
Disney Dollars (opposite page) were an immediate hit at the U.S. parks; 93 women who have portrayed Snow White at the parks (top) were reunited for the fair damsel's 50th anniversary; above, welders at work on Pleasure Island, the nighttime entertainment area that opens this fall at Walt Disney World; Kraft Foods president Michael A. Miles and astronaut Steve Oswald in October celebration at Land pavilion; right, dinnertime for a dolphin at Epcot Center's Living Seas pavilion.

Centerpiece of the 100,000-square-foot pavilion will be a "ride through the human body" using motion-based film simulation technology introduced in the Star Tours attraction at Disneyland last January. Other pavilion highlights include a 200-seat theater, where a cast of newly designed cartoon characters will present Cranium Command, an Audio-Animatronics and film show that takes a humorous look at how the brain functions; Fitness Fairgrounds; a fun house about the five senses; and Goofy About Health, starring himself.

Also scheduled for 1989 is DreamFlight, an amusing ride through the history and future of aviation, presented by Delta Airlines in Tomorrowland.

DISNEYLAND

In January, the Star Tours adventure blasted off and quickly became one of the hottest attractions ever at the California park. The spaceship thrill ride, built by Disney Imagineers using film in combination with a flight simulator motion base, can "fly" viewers right into the film... seatbelts required.



Film maker George Lucas provided the visuals, based on his celebrated "Stars Wars" legend. Audio-Animatronics droids C-3P0 and R2-D2 welcome guests during a hilarious pre-flight show before rookie pilot RX-24 rockets his passengers into a series of harrowing misadventures.

Lucas and Michael Eisner joined more than 50 "Star Wars" characters for the opening ceremonies. Former astronauts Donald (Deke) Slayton and Gordon Cooper were there. So were globe-circling Voyager pilot Dick Rutan, with co-pilot Jeana Yeager and Voyager designer Bert Rutan.

"The ride totally blew me away," Bert Rutan told one of the hundreds of reporters on hand. The festivities marked the start of a 60-hour non-stop party celebrating the premiere.

Captain Eo, the first Disney/Lucas collaboration, continues to be very well received by guests. The 3-D and laser adventure opened last year in Tomorrowland.

"Groundraising" took place April 24 for Splash Mountain, a major new adventure inspired by Disney's classic film, "Song of the South." The world's longest log-flume ride and the fourth "mountain" in the Disney range, it is now well into construction and is due to open early in 1989.

In July, The Disney Gallery opened above Pirates of the Caribbean in New Orleans Square. The second-floor suite, originally built for Walt and Lillian Disney, showcases fine works of art that were important in developing Disneyland's attractions.

On warm summer nights, the gallery's veranda, overlooking the Rivers of America, provides a front-row view of Tinkerbell's Fantasy in the Sky fireworks after the popular Main Street Electrical Parade.

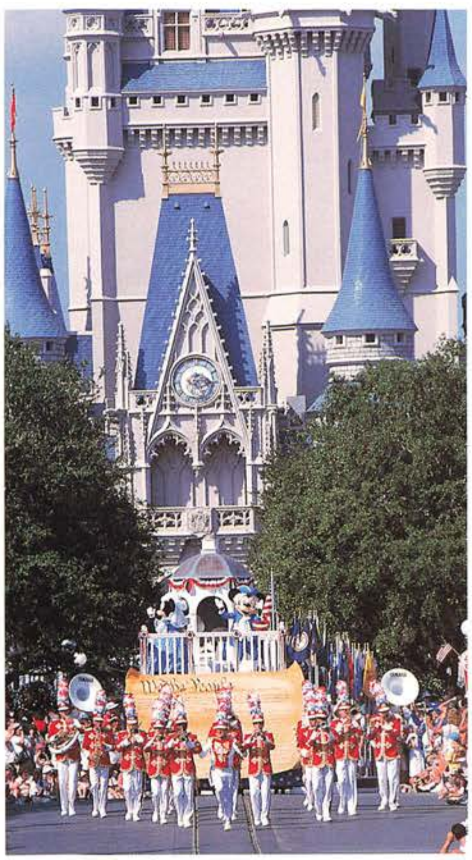
Special guests helped make it a special year. For a week in May, the CBS Morning Show broadcast to a waking nation from Sleeping Beauty's Castle. In August, 138 members of Russia's Bolshoi Ballet spent a free Monday at the park.

Almost 100 antique vehicles set off from Town Square June 30 in the second Great American Race amid cheers, brass band music and showers of bright confetti. With Goofy and thousands of other well-wishers spurring them through the cities and towns of 10 Sun Belt states, the cavalcade arrived 11 days later at Epcot Center's American Adventure.

The circus came back to town in March. It was an encore appearance after its rousing reception the year before. In September, State Fair rolled the best of America's fall festivals into one colorful event. Pig races, midway games, food and entertainment helped increase attendance.

Newscasters and other representatives from 16 TV stations around the country competed in the inaugural State Fair Games, raising money for charities and reporting on the good-natured contests to their home audiences.

Water tank equipped with Mickey Mouse ears (opposite page) serves as backdrop for steel skeleton of Florida's Disney-MGM Studios; clockwise, author Alex Haley, astronaut Gordon Cooper help Walt Disney World celebrate Constitution's 200th anniversary; tilers atop Epcot Center's Norway Pavilion, opening this summer; Michael Eisner and friends at groundbreaking for Splash Mountain in California; Disneyland Gallery displays original art involved in design of park's attractions; 200th anniversary parade in Walt Disney World's Magic Kingdom.



The year ended with the Very Merry Christmas Parade, the Country Bear Christmas Special, strolling Dickens Carolers, Yuletide stage shows and a Main Street bedecked with more than a mile of garland and 60-foot-tall Christmas trees.

TOKYO DISNEYLAND

The first Disney park outside the U.S. continues to surpass all expectations for attendance: Guest number 40 million was welcomed Feb. 27. Fifteen-year-old Junko Abe of Fujisawa City was saluted in a special ceremony and received a five-year complimentary pass.

Toyko Disneyland begins a year-long fifth anniversary celebration April 15. Since its opening in 1983, the park, owned and operated by Oriental Land Co., Ltd., has welcomed more than 10 million guests annually.

The excitement kept mounting as two major new attractions opened during 1987.

Captain Eo began delighting guests in March, after an opening studded with lights, action and intense media attention. Big Thunder Mountain began regularly scheduled runaway mine-train rides in July.

Captain Eo himself, Michael Jackson, stopped by for a visit and party in September during his world tour. Mickey greeted the Captain and his entourage at the main gate, where Jackson met with members of the international press corps.

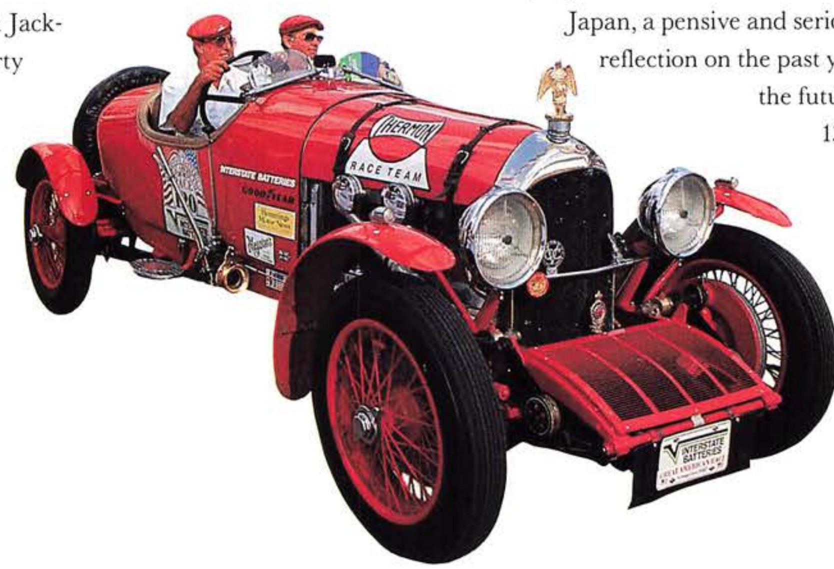
Jackson and company also rode Big Thunder Mountain, a jewel-like recreation of its Disneyland and Walt Disney World ancestors. It's the biggest addition ever to Tokyo Disneyland, which has added new events, shows and attractions with every change of season since its opening.

Film maker George Lucas joined park management in September to announce that Star Tours will be coming to Tokyo in the summer of 1989. He was joined by Mickey Mouse and Setsuko Furuyama, Tokyo Disneyland ambassador for 1987. Superstar droids R2-D2 and C-3P0 also lent their assistance.

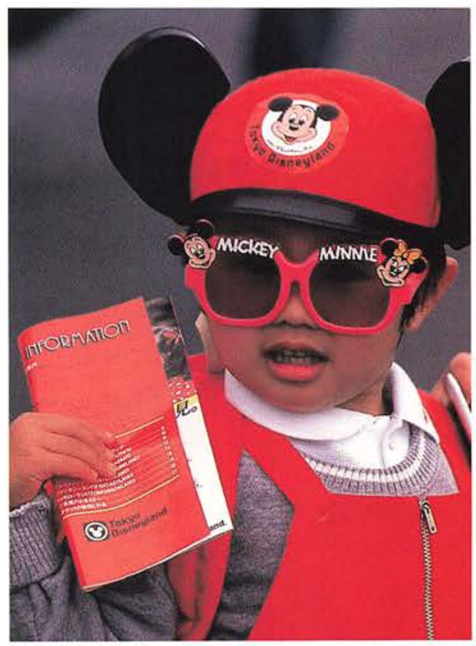
Three hotels–1,979 rooms in all–will open adjacent to the park this year. The Sheraton Grande Tokyo Bay welcomes its first guests in April. The Tokyo Bay Hilton International and the Regent Park follow in July. They will bring to four the number of official Tokyo Disneyland hotels near the park. Neither Disney nor Oriental Land Co. has a financial stake in the hotels.

In addition, the Tokyo Bay N.K. Hall, a 7,000-seat, multi-purpose facility geared especially to conventions and cultural events, will open in the same area in July.

Tokyo Disneyland may even be enlivening one Japanese tradition. The American-style New Year's Eve party there, with its fun and frolic, is quite different from the traditional New Year's Eve in Japan, a pensive and serious occasion given over to reflection on the past year and plan-making for the future. Last year, more than 137,000 people attended the all-night party, now one of the most talked-about events at the park.



One of nearly 100 antique vehicles from six countries (opposite page) that chugged from Disneyland to Walt Disney World in the Great American Race, a 3,920-mile, 10-state odyssey; parade (above) kicked off Disneyland's State Fair in September; left and right, faces in crowd at Tokyo Disneyland; center, George Lucas and two familiar sidekicks at Tokyo groundbreaking for Star Tours, to open in 1989.



Nineteen eighty-seven was a year of milestones for The Walt Disney Studios and a banner year at the box office for Walt Disney and Touchstone Pictures. Under the leadership of Chairman Jeffrey Katzenberg and President Richard Frank, the studio continued to emerge as a major force in all areas of filmed entertainment.

Jeffrey Katzenberg
Chairman
The Walt Disney Studios

Richard H. Frank
President
The Walt Disney Studios

The year's major theatrical event was the 50th anniversary celebration of "Snow White and the Seven Dwarfs." The film returned triumphantly to theaters the world over, shattering records and adding $46 million to its cumulative domestic gross, which now totals $376 million. A dozen other motion picture releases–including "Outrageous Fortune" and "Stakeout"–led the division to its best year ever.

As 1987 drew to a close, Buena Vista Pictures Distribution, the releasing arm for all Disney and Touchstone films, was in a competitive position to become the industry's second biggest distributor. At the same time, the studio's share of the overall box office increased to nearly 13 percent from as little as three percent in the recent past.

Similar successes were achieved in virtually every other division of the studio. Buena Vista Home Video dominated the sales and rental charts with a variety of Disney and Touchstone titles, and pre-sales of "Lady and the Tramp" passed three million units, an industry record.

Buena Vista Television launched several new syndicated series, including the daily animated "DuckTales." The Disney Channel, still the nation's fastest-growing pay-TV service, was within reach of its four millionth subscriber. And viewers of Showtime/The Movie Channel enjoyed Touchstone titles as part of the studio's exclusive, five-year output arrangement.

In network television, the company continued its success with "The Golden Girls," now in its third season. "The Disney Sunday Movie" also entered its third season with a slate of new telefilms for the entire family. More than 20 network projects with such talents as Cindy Williams, Carol Burnett, Bette Midler and Christopher Lloyd are in various stages of development.

MOTION PICTURES

The studio continued to benefit from its association with top motion picture talents. Among others, Bette Midler, Tom Hanks, Shelley Long, Robin Williams, Richard Dreyfuss, Tom Selleck, Paul Newman, Barry Levinson, Arthur Hiller, Paul Mazursky, Martin Scorsese and Leonard Nimoy are on board with production agreements or new projects in development.

The year started auspiciously with the Touchstone comedy "Outrageous Fortune," starring Bette Midler and Shelley Long. It topped the box office charts and grossed $53 million. "Tin Men," with Richard Dreyfuss and Danny DeVito, followed in March, earning critical acclaim for director Barry Levinson.

But that was merely prelude. The studio's six summer releases, all box office winners, grossed in excess of $220 million. Such a string of hits is virtually unprecedented in the industry.

"Stakeout," with Richard Dreyfuss and Emilio Estevez, led the charts for more than a month and by November had passed $64 million. "Benji the Hunted," "Adventures in Babysitting," "Can't Buy Me Love" and "Ernest Goes to Camp" added to the momentum. The latter two titles were the direct result of the studio's aggressive new policy toward acquiring independently made films.

But the central focus of the summer lineup belonged to a fairy tale princess and her seven little companions. Snow White, the first lady of animation, proved she was still the fairest of them all and an international box office star of the highest magnitude. In honor of her 50th anniversary, "Snow White and the Seven Dwarfs" made its debut in Moscow, returned to China for the first time in more than 40 years and was seen by audiences in 42 countries.

In the U.S., the film established a number of box office records for the studio and the industry as a whole. It became the highest grossing reissue in the history of motion pictures as well as the single most successful animated release of all time. More people have seen "Snow White and the Seven Dwarfs" than any other film ever released.

Robin Williams as disc jockey Adrian Cronauer in "Good Morning, Vietnam."


AUER
U.S. AIR FO

As the year came to a close, two more Touchstone pictures and a Disney animated favorite were doing a booming business. Audiences said "Hello Again" to actress Shelley Long as she returned with Corbin Bernsen in the hit comedy of the same name. At Thanksgiving, Touchstone delivered "Three Men and a Baby," starring Tom Selleck, Steve Guttenberg and Ted Danson, which promptly became one of the studio's biggest box office successes.

Also for the holiday season, Walt Disney's classic "Cinderella" returned to weave her magic once again. With unprecedented promotional and advertising support from Sears and McDonald's, the film became one of Disney's most successful reissues of all time.

In 1988, The Walt Disney Studios will continue to widen the aperture to reach many audiences with an ambitious theatrical release schedule that ranges from sophisticated comedies to murder mysteries to traditional family-oriented adventures. The following are some of the highlights for the upcoming year:

□ "Good Morning, Vietnam," showcased in December before its January opening, features Robin Williams as the Army's secret weapon–irreverent disc jockey Adrian Cronauer. With the futility and devastation of the war all around him, Cronauer comes to realize how important his satire and humor are to the spirits of thousands of servicemen.

□ "Shoot To Kill" returns Sidney Poitier to the screen after an eight-year absence. When a city-wise FBI agent (Poitier) chases a murderer to the high country of the Pacific Northwest, he joins forces with a rugged mountain guide (Tom Berenger) who helps him survive in the wilderness. The unlikely partners then pursue the fugitive to Vancouver, where the street-smart agent suddenly must take charge of the unworldly mountain man.

□ "The Rescue" stars Charles Haid, Kevin Dillon and Edward Albert in a drama about Navy divers seized by the North Koreans. When the U.S. government fails to act, the men's "Navy brat" children back at the base organize a daring mission to free their dads.

□ "D.O.A." features Dennis Quaid and Meg Ryan in a sophisticated remake of the 1949 thriller. A college professor, himself dying from a slow-acting poison, is suspected of murdering his top student, his ex-wife and several other seemingly innocent people. As his life ebbs, he struggles to clear himself and comes to appreciate the life he had taken for granted.

For summer 1988, the studio will release a quartet of films, including a reissue of the animated classic "Bambi."

Among the releases is "Who Framed Roger Rabbit?," the studio's exciting first collaboration with Steven Spielberg's Amblin Entertainment. Robert Zemeckis of "Back to the Future" directed this unconventional comedy whodunit, which stars Bob Hoskins, Roger Rabbit and Christopher Lloyd. State of the art technologies, masterful storytelling and what can only be described as "a whole new reality" are deftly blended in this original cinematic experience.

"Big Business" stars Bette Midler and Lily Tomlin and Lily Tomlin and Bette Midler as pairs of twins mismatched at birth. Two grow up in rural poverty, the other two in big-city luxury. When they come face to face as adults in New York's Plaza Hotel, virtually every conceivable case of mistaken identity ensues.

"Cocktail" is Tom Cruise's first appearance since his acclaimed role in Touchstone's 1986 hit film, "The Color of Money." He stars as a cocky bartender who becomes the toast of New York's upper East Side scene. His ambitious quest to have it all soon leads him to discover a few hard truths about the meaning of success in the 1980's.

For the 1988 holiday season, Walt Disney Pictures will take the wraps off its new full-length animated feature, "Oliver and Company." Bette Midler, Billy Joel and Cheech Marin head up the vocal cast in this contemporary canine version of Charles Dickens' "Oliver Twist." Set in Manhattan, the film introduces a delightful new menagerie of Disney dogs and cats. Its five-song soundtrack includes music by Barry Manilow and Huey Lewis.

The release of "Oliver and Company" signals a new period of productivity and creativity within the studio's feature animation division. Mr. Katzenberg and Mr. Frank have made a major commitment to the Disney heritage of quality animated features and have begun to fulfill Walt Disney's dream of producing one animated feature annually. An enlarged staff of top animators and record expenditures on state-of-the-art technology are making this dream a reality.

Already in production for release in 1989 is "The Little Mermaid," a musical fairy tale in the tradition of Disney's greatest classics. Acclaimed Broadway writer/producer Howard Ashman ("Little Shop of Horrors") is the lyricist and co-producer.

Scenes from three movies due for 1988 release: "The Rescue," above; Bette Midler and Lily Tomlin in "Big Business"; Dennis Quaid and Meg Ryan in "D.O.A."

In the coming year, the studio will also continue its aggressive approach toward attracting independent filmmakers and acquiring the best available independently made films for distribution. The success of "Benji the Hunted" and "Can't Buy Me Love" has validated the wisdom of such a policy.

DISTRIBUTION

In booking the company's films into top theaters in the U.S. and Canada, Buena Vista Pictures Distribution formulates the release schedules vital to each picture's success.

Buena Vista has taken the unusual step of timing the release of several films to avoid the concentration of movies at peak holiday periods. In consecutive Januarys–traditionally lean times for new movies after the Christmas season–it brought "Down and Out in Beverly Hills" and "Outrageous Fortune" to theaters. Both were major box-office hits.

The same philosophy in 1986 premiered "The Color of Money" in October instead of during the Thanksgiving/Christmas season. Again in 1987, "Cinderella" and "Three Men and a Baby" opened before Thanksgiving instead of during the traditional Christmas playing time.

Buena Vista's unbroken string of quality hit films has gained it a new respect among exhibitors, resulting in better theater placement and improved relations with the exhibition community.

The division continued to consolidate, with regional offices now narrowed to Atlanta, Chicago, Dallas, Los Angeles and New York. This restructuring enabled Buena Vista to gain firm control of costs while more efficiently serving individual markets despite the increased flow of product.

Buena Vista International signed a long-term agreement by which Warner Bros. International will act as sole distributor for Disney and Touchstone pictures in markets outside the U.S. and Canada. Disney will maintain full control of all distribution and marketing decisions. The agreement means that, for the first time, Disney's films will be released around the world by a single management and distribution entity.

In the past the company has used other studios' organizations, local foreign distributors and its own distributors in two markets. While bringing the entire task under one roof is a key advantage, WBI's excellent record in the foreign marketplace also was a major factor.

The company completed a record-setting year overseas. "The Color of Money" and "The Great Mouse Detective" performed extremely well. Income in France, long Disney's best foreign market, almost doubled, while Italy and Japan also showed vigorous increases.

NETWORK TELEVISION

Disney maintained its high network-TV profile in 1987. In addition to weekly programming, it produced a slate of specials ranging from circus spectaculars to rock videos.

Touchstone's smash comedy, "The Golden Girls," continued as one of TV's top-rated series, and for the second straight year it won the Emmy Award for best comedy series. Last year Betty White was the Emmy winner for best actress in a comedy series. This year that honor went to co-star Rue McClanahan.

"The Disney Sunday Movie" remained a high priority. Restructured to a one-hour format in one of TV's most competitive time slots, it continues to strengthen the company's reputation for family-audience entertainment.

Meanwhile, "The Oldest Rookie" made its debut on CBS, with Paul Sorvino as a desk-bound policeman who becomes a street cop in middle age and is paired with the youthful D.W. Moffett.

"The Adventures of the Gummi Bears" continued to do exceptionally well on Saturday mornings. Despite a change in schedule, it remained number one in its time slot.

The network pace is expected to pick up substantially within the next year. Among projects in development:

- "The New Adventures of Winnie the Pooh," the first animated series to star a classic Disney character. It begins on ABC in the fall after appearing first on The Disney Channel;
- "The Dictator" (CBS), starring Christopher Lloyd as a deposed political strongman who sets up shop in a New York laundromat;
- "Empty Nest" (NBC), a new sitcom from the producers of "The Golden Girls" that follows the adventures of a recently widowed man whose three daughters have grown up and left home;
- "Eunice," starring Carol Burnett, that premieres on The Disney Channel before moving to commercial TV.

Touchstone's "Shoot To Kill" (opposite page) features Sidney Poitier and Tom Berenger as unlikely partners; top, left to right: Elton John in "Disney's Totally Minnie" March TV special; rock 'n' roll mom Dyan Cannon from "The Disney Sunday Movie"; a scene from Emmy-winning "The Golden Girls" on NBC; right, furry cast of "Oliver and Company," Disney's 27th full-length animated film.

FILMED ENTERTAINMENT

(In millions)	1987	Change	1986	Change	1985
Revenues	$875.6	+71%	$511.7	+60%	$320.0
Operating income	130.6	+153%	51.6	+53%	33.7
Operating margin	15%		10%		11%

Revenues and operating income increased significantly in 1987 due in part to the continued growth and success of the theatrical division, which enjoyed strong domestic and international showings from most features.

The 1987 revenues and operating income also benefited from increased domestic television activities, including the licensing of feature films for network and pay television programming. The syndication of two major packages of Disney feature films and television programming also generated substantial revenues in the current year. The syndication of additional properties is not expected to be as significant in 1988.

Higher home video sales and steady growth in the subscriber base of The Disney Channel contributed to improved results in 1987. The operating margin in 1987 increased dramatically over prior years despite the impact of certain unsuccessful theatrical and television projects.

Revenues and operating income were higher in 1986 when compared with 1985 due primarily to successful theatrical releases, higher television revenues generated from network programming and foreign syndication, greater home video sales and improved results for The Disney Channel.

Potential financial risk is reduced and diversified through Silver Screen Partners' investments in the Company's films. Through 1987, Silver Screen II funded approximately $170 million. Silver Screen III has funded $129 million in 1987 and will fund approximately $141 million in 1988.

The specials continue to provide family entertainment while at the same time calling attention to the theme parks and Disney character merchandise. A record seven specials were aired during the 1986-87 season. Another seven are scheduled for 1987-88. Next fall a salute to Mickey Mouse will commemorate his 60th birthday.

SYNDICATION

Buena Vista Television, Inc., barely two years old, has emerged as a leader in the profitable field of TV syndication.

By last fall, the division that was set up to market and distribute material from the studio vaults had also become a leading marketer of original programming for syndication, with top performers in three program areas: "DuckTales" in children's animation, "Win, Lose or Draw" in Monday-through-Friday adult programming and "Siskel and Ebert" in the once-weekly half-hour category.

In addition, Buena Vista marketed two new packages of feature films, one comprising recent offerings from Touchstone Pictures, the other consisting entirely of Disney television and theatrically released pictures.

"DuckTales," two years in the making, is Disney's first daily animated series. It focuses on the exploits of Scrooge McDuck and grandnephews Huey, Dewey and Louie. They are joined by two new Disney characters, Launchpad McQuack and a female counterpart for the nephews, Webbigail VanderQuack.

Now seen in 153 TV markets covering 93 percent of the U.S. population, "DuckTales" immediately became the number one TV syndicated animated show. Based on the overwhelming success of the series, 30 additional episodes have been ordered, and a second daily animated series featuring Disney favorites Chip n' Dale as The Rescue Rangers has been announced for 1989.

Audience enthusiasm continues to make "Win, Lose or Draw" the season's top-rated new game show in syndication.

The invention of its co-executive producers, Burt Reynolds and Bert Convy, "Win, Lose or Draw" is a star-studded comedy/game show of sketch-pad charades. Convy is host of the syndicated program; a daytime network version, hosted by Vicki Lawrence, runs daily on NBC.

"Siskel and Ebert" remains the leading movie-review offering on television. Gene Siskel and Roger Ebert, the Chicago newspapermen who originated the show's widely imitated format, appear in more than 170 cities representing 94 percent of U.S. households.

"Wonderful World of Disney," 178 hours of animation, live-action, adventure and nature films carefully selected from the series' 29-year run on network TV, leads the syndicated family-hour ratings. This package appears in more than 150 cities.

Three other collections of Disney and Touchstone material are also doing well.

"Disney Magic-I," 25 films that reflect the artistry and craftsmanship of five Disney decades, includes "Dumbo" and "Babes in Toyland" as well as the first Touchstone film, "Splash." Currently sold in 156 cities and representing 92 percent of the U.S. population, "Disney Magic-I" in its first year was among the top three movie packages in national ratings.

Its successor, "Magic-II," is one of the strongest film packages ever offered in syndication. First marketed in August, it carries a heavier Touchstone flavor than "Magic-I" and includes "Stakeout" and "The Color of Money." Its companion, all-Disney library package, "Disney Treasure-I," features "Old Yeller" and 13 other favorites.

In addition to these packages, Buena Vista has announced plans to syndicate "Live With Regis and Kathie Lee," which will bring Regis Philbin and Kathie Lee Gifford to the national market. Their Morning Show in New York consistently has the highest audience share of any program on highly successful WABC-TV.

All told, Buena Vista Television will invest $50 million in 1988 production. Its most important upcoming project is the marketing of "The Golden Girls" for U.S. syndicated broadcast. The program is considered one of syndication's most profitable and eagerly awaited offerings.

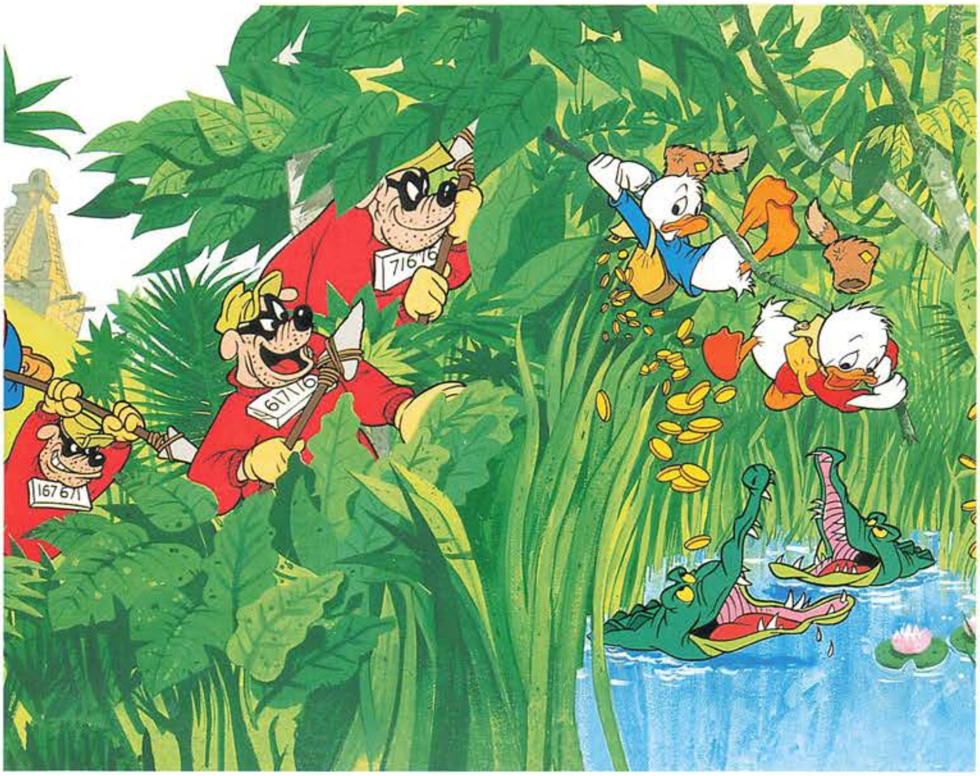
A dramatic increase in revenues has been realized in foreign TV sales and distribution. Italy remains the top TV market for Disney product, while a new agreement with Scan-Sat will bring regular Disney programming to Denmark, Norway and Sweden.

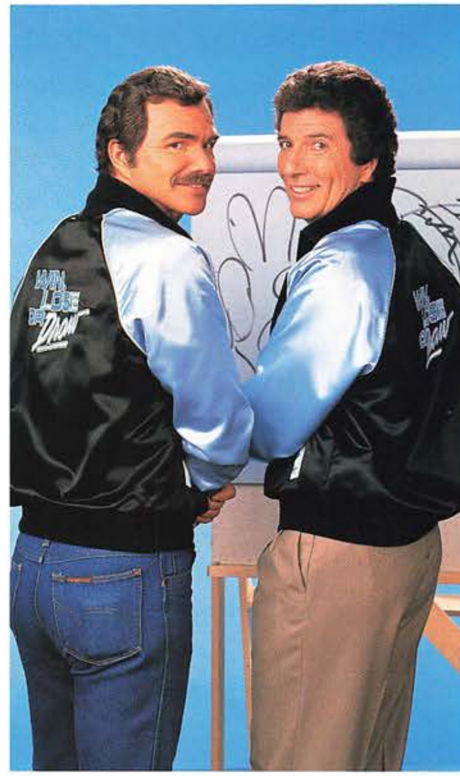
In other foreign markets, Disney programming is seen weekly in compilations known variously as "The Disney Club," "Le Disney Channel" and "Club Amigos." A Japanese version makes its debut in January, and a Spanish version will also go on the air in 1988. France is in its fourth year of prime-time network programming, while Portugal's version enters its second successful year.

THE DISNEY CHANNEL

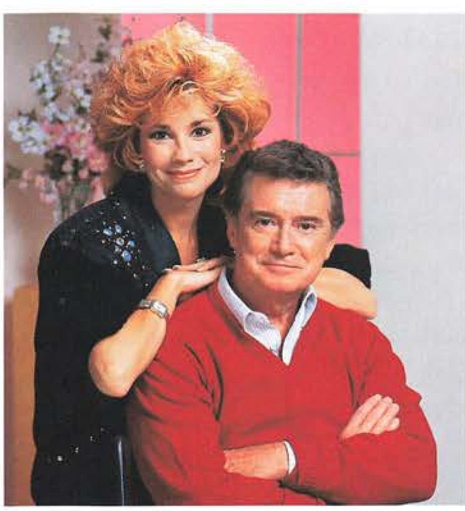
In September, *Consumer Reports* asked its readers to rate their favorite cable networks based on quality. The Disney Channel–"America's Family Network"–won by a wide margin.

In October the channel was one of eight recipients of *Channels* magazine's Excellence in Media awards–and the only national pay-television service cited.





Clockwise from upper left: "DuckTales," Disney's first animated series, has become afternoon TV mainstay; Burt and Bert–Reynolds and Convy–from popular syndicated game show, "Win, Lose or Draw"; Carol Burnett's "Eunice" will make its debut on The Disney Channel, then appear on commercial TV; Regis Philbin and Kathie Lee Gifford bring their top-rated New York talk show to national audience through Disney's Buena Vista Television.



In fiscal 1987, the channel increased its subscribership by a remarkable 25 percent. For the third consecutive year, it achieved the largest market-share gain in the industry.

"For the video-fluent viewing household, The Disney Channel can be the highest form of cable," the influential critic Tom Shales wrote in the *Washington Post.*

Audience research confirmed this assessment. The percentage of viewers who termed The Disney Channel "excellent" was four times higher than its nearest pay-TV competitor. In fact, viewers rated the channel far superior to other cable networks in four major categories: quality of programming, differentiated programming, value for the money and program variety.

Surprisingly, family-viewing material has received immediate acceptance from the over-12 and adult segments of the channel's viewership, which represents 33 percent of all subscribers.

The year was filled with special television moments. In March the channel began carrying a television adaptation of the final 17 episodes of "A Prairie Home Companion," the acclaimed public radio show centering around Garrison Keillor and his mythical Minnesota hometown, Lake Wobegon. Later in the spring, Disney aired the television premiere of "Anne of Avonlea: The Continuing Story of Anne of Green Gables."

In June came a Disney Channel exclusive: "16 Days of Glory, Part II," a masterly five-hour documentary about the athletes of the 1984 Olympic Games. "16 Days of Glory, Part I" aired on the channel in January. In the fall, "College Bowl '87," with Dick Cavett as host, ran through a 15-game "season" that matched scholars from a wide range of America's colleges and universities.

The Disney Channel continues to add original programming to its 1988 menu. Carol Burnett returns to television in a new situation comedy series that will make its debut on the channel. "The New Adventures of Winnie the Pooh," and "Save the Dog!," with Tony Randall and Cindy Williams, will help to further substantiate the *TV Guide* assessment that The Disney Channel provides "the cleanest fun money can buy on cable...."

A number of successful series continued into the new year. "Danger Bay," the weekly family action-adventure about a veterinarian and his two children, began its fourth season in October. "The Wind in the Willows," employing innovative stop-action animation, returned a month later.

And "The Missing Adventures of Ozzie and Harriet" comprises 100 episodes about the perennially popular Nelson family not seen since their original network TV run, which ended in 1966. David Nelson selected these episodes for new viewing.

HOME VIDEO

The demand for Disney and Touchstone video products rose sharply in 1987, driven by the company's top-quality offerings and aggressive, sophisticated marketing and promotion campaigns.

The continued entry of VCR's into households in the U.S. and abroad also was a major factor. By year's end, more than half of all American homes had video players. The division is expected to rank second in market share among U.S. suppliers when final 1987 figures are in. Only two years earlier it ranked sixth in the industry.

As usual, the company dominated the children's marketplace–"and deservedly so," said *Video* magazine. "Disney's classic children's fare is familiar to parents in the nostalgic glow of matinee memories and boasts animation that's still considered state of the art."

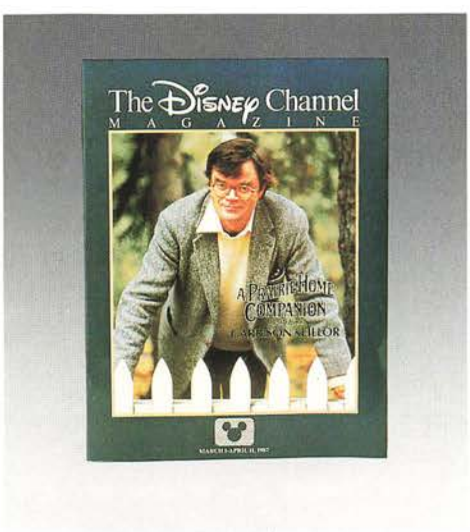
Newsday scrutinized the company's marketing strategy. "By releasing products for only a limited time, Disney has taken a wide lead on the competition," it reported. "The Top Kid Video chart in *Billboard* reads like a Disney catalog."

The "Absolutely Irresistible" campaign at Christmas, built around "Lady and the Tramp" and 35 other Disney titles, broke all industry records, selling more than seven million units. "Lady" alone accounted for three million of that total. Earlier, "Classic Disney at a Goofy Price" sold 2.2 million units, more than any other summer promotion in industry history.

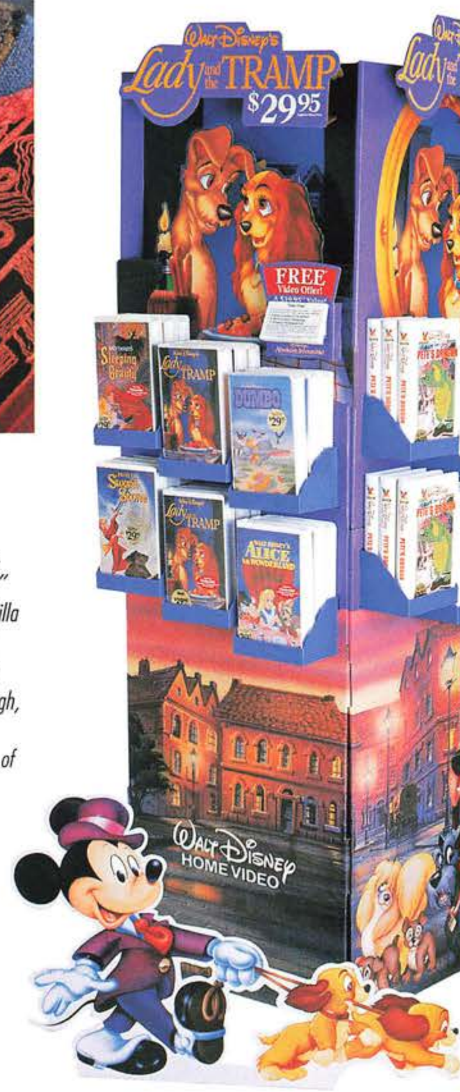
Touchstone's box office hits continued to excel when they reached the VCR marketplace. "The Color of Money," at the higher $89.95 sales price, took over as Buena Vista's best-selling video ever. And "Outrageous Fortune," released in November, promised to do even better. "Tin Men" was another exceptional seller.

All told, Touchstone's video revenues were up significantly over the prior year. The pace should continue in 1988 with "Stakeout," "Adventures in Babysitting" and "Can't Buy Me Love."

Internationally, revenues also increased as Disney solidified its position as the family-entertainment leader in each of its 26 markets. The growth also clearly reflected the expansion of the Touchstone line.



The Disney Channel's "Palmerstown U.S.A." series (opposite page) tells the story of two families, one black and one white, in rural South of the 1930's; "The Night Train to Kathmandu" (top left), a Disney Channel premiere film this spring, stars Milla Jovovich and Eddie Castrodad; Sing Along Songs is third in a successful series of interactive video products; award-winning "Lady and the Tramp" point-of-purchase display, 5 1/2 feet high, can be configured 25 different ways; The Disney Channel Magazine, with a circulation of 4.25 million, ranks in the top of all periodicals in the U.S.



Nineteen eighty-seven was another banner year for Disney Consumer Products, which continued to ride a wave of tremendous customer demand for Disney-created and Disney-licensed products of every description–from kitchen gadgets to talking Mickey dolls, from T-shirts to ball gowns, from comic books to fine art.

Barton K. Boyd
President, Disney Consumer Products

An entirely new business area, The Disney Stores, also made headlines, with three all-Disney outlets making auspicious debuts in California.

The Disney Stores represent the company's first expansion into retailing outside theme park environments. The stores feature creative Disney designs, a wealth of high-quality Disney merchandise and highly trained and motivated Disney cast members. "Retail as entertainment" is the motif, with three-dimensional animated characters, Disney videos and Disney music all contributing to a festive atmosphere.

The stores also support other parts of the company by selling theme park tickets, distributing catalogs and promoting films, home videos and The Disney Channel.

The first Disney store opened in late March at the Glendale Galleria, a suburban mall near company headquarters in Burbank. It proved so successful that additional stores were added at Pier 39 in San Francisco in late July and at South Coast Plaza in Orange County in November.

In their first several months, the Glendale and San Francisco outlets enjoyed sales volumes several times greater than their surrounding neighbors. Initial sales at the South Coast Plaza location are equally impressive. More stores in selected markets throughout the country will be opened in the future.

It was a year in which Disney not only aggressively expanded its Consumer Products business but moved strongly as well to protect the Disney franchise with acceleration of a global program to eliminate the pirating of Disney characters. During the fiscal year, Disney attorneys filed worldwide multiple suits against copyright infringers. The suits named more than 700 defendants in the United States and more than 300 in other countries.

Other major events in an eventful year included the signing of four significant long-term agreements–three of them new–that are expected to create substantial profit opportunities for Disney:

□ The first consists of a major worldwide licensing agreement with Mattel, Inc., calling for the design, development, manufacture and marketing of Disney-branded infant and preschool toys. The line, presented to the toy trade by Mattel at its January 1988 Pre-Toy Fair in Scottsdale, Ariz., will be available to consumers by summer.

□ In addition, Disney entered into a sweeping agreement with Sears, Roebuck and Co. to jointly develop a broad range of consumer merchandise based on Disney characters from new and re-released animated features for marketing by Sears under a new Disney-Sears label. Other parts of the long-term agreement call for promotion by Sears of at least two Disney animated features each year and Sears participation in the Disney-MGM Studios tour attraction in Florida.

□ A third new major agreement calls for Coronet/MTI, a subsidiary of Simon & Schuster, to distribute the educational films, videos and filmstrips produced by award-winning Disney Educational Productions.

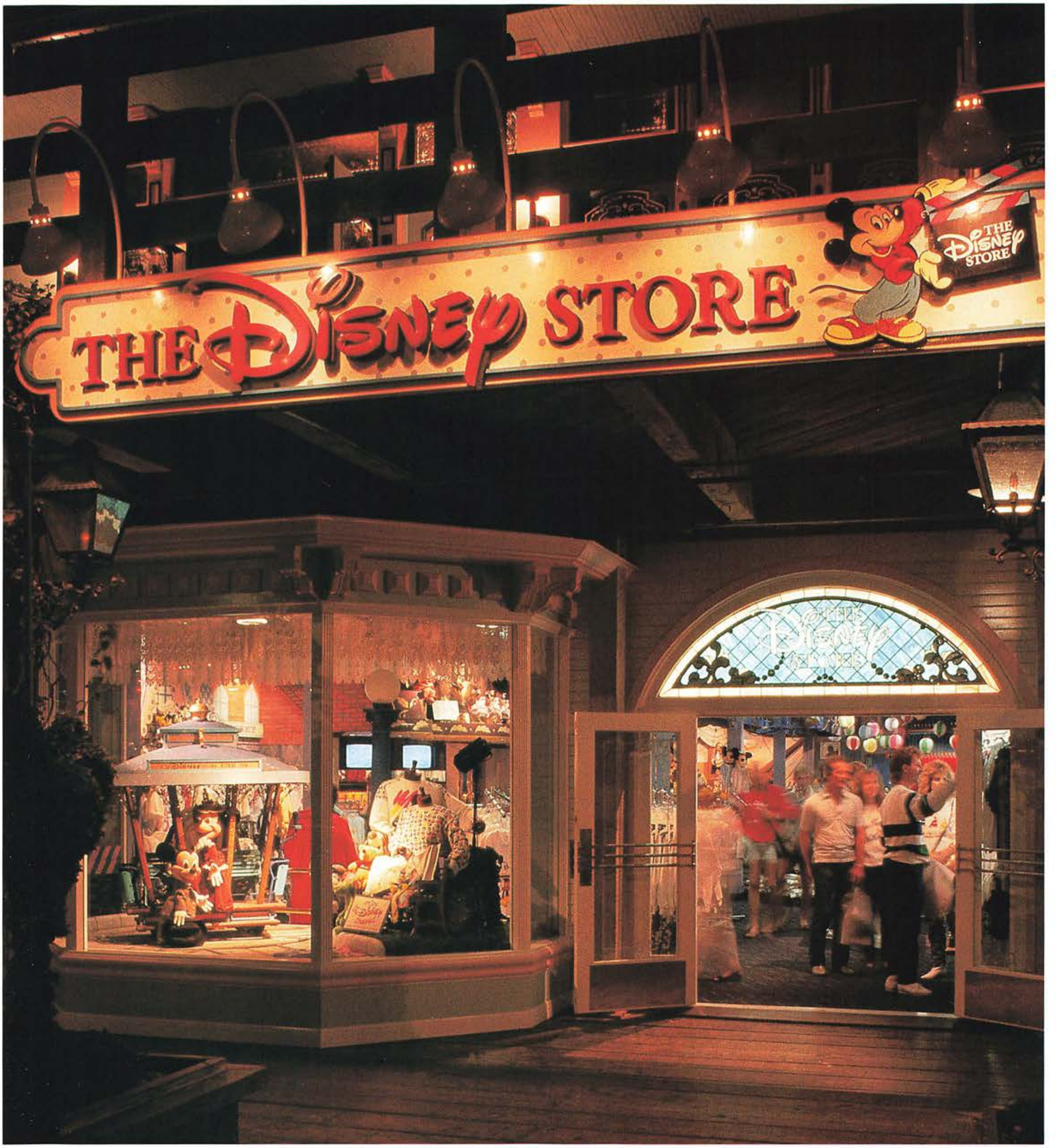
□ During the year, Disney extended its long-term licensing agreement with Barnum & Bailey to continue producing the popular "Disney On Ice" shows, which have been expanded into the European, Latin American and Asian markets. The new pact guarantees the existence of Disney ice shows well into the 21st Century.

The Consumer Products Division played a key role in the worldwide celebration of the 50th birthday and re-release of "Snow White and the Seven Dwarfs," enlisting licensees who produced and promoted more than 500 special Snow White products, including the highly successful "Snow White On Ice" show.

Licensing of standard Disney characters achieved substantial royalty revenue increases both domestically and internationally in 1987. Disney remains the strongest multi-national character licensor in the world with more than 3,000 licenses covering 14,000-plus products in more than 50 countries. Top-performing licensees during 1987 included: Lorus (Disney watches); Rarities Mint (collectible silver and gold coins); Hasbro (Disney's major plush toy licensee); and Gold Bond Ice Cream (Disney frozen treats).

Disney's adult fashion designs continued to have strong appeal in the United States, with J. G. Hook and American Characters International providing leadership in the Disney commitment to contemporary design and high-quality workmanship. Meanwhile, Disney successfully expanded into better children's lines, which sold at all levels of distribution and across all price points.

The Disney Store at San Francisco's Pier 39 was an immediate success from opening day in July.


THE DISNEY STORE
THE DISNEY STORE

A total of 30 licensees representing all product areas supported the United States launch of "DuckTales," Disney's new syndicated animated series, which made its premiere in September. The move of "DuckTales" into foreign TV will also be supported by a major international marketing program.

The launch of Disney Babies in 1986 provided 1987's major impact in foreign and domestic markets. An even more aggressive program is planned for 1988. Products for the baby's room will be offered under the Disney Babies brand from licensees such as Hasbro, Dundee Mills, Evenflo and Catton Brothers.

In a continuing program to support all United States licensees at the retail level, Disney conducted a major Mickey Mouse Club promotion during the year, supported by $5 million in advertising from Nabisco Oreos. More than 2,000 mass merchandisers participated with in-store displays and Disney merchandise boutiques.

The program established Disney as the premier tie-in partner for the retail trade and paved the way for the coordinated promotional event of 1988, the celebration of Mickey's 60th birthday.

Meanwhile, the Walt Disney Family Gift Catalog grew substantially, and more than 2.8 million copies were mailed to consumers in 1987. In 1988, more than eight million copies will be mailed. The 24-page catalog contains 200-plus items.

Other 1987 highlights in Consumer Products included:

- the strongest year ever for Disney's Records and Music Publishing Group;
- entry into a marketing licensee contract for representation in the People's Republic of China and the signing of contracts with a number of companies for the manufacture and distribution of character merchandise in China;
- continued worldwide leadership in the field of licensed character children's books and magazines.

It was a big year for Disney Publications. In the United States, 14 titles from five publishers supported the 50th anniversary of Snow White. Publications continued its expansion in the retail segment with three major deluxe books for adults released in the fall. Fall also saw the launch of the "Mickey Mouse Magazine," a quarterly for children and their parents.

The Disney Limited Edition Art Program launched two extremely successful series of handpainted and serigraph cel reproductions, including a "Fantasia" portfolio retailing for $5,000.

Meanwhile, annual sales of Disney Comics magazines exceeded 200 million copies worldwide.

Disney's international publishing program continued to expand, with 150 licensed publishers producing hundreds of new titles in 21 languages. In Europe, Disney publishers began work on 35 "DuckTales" titles, and new preschool magazines were launched in England, Germany and Holland.

Maintaining its leadership in children's audio products, Disney in 1987 became the first U.S. company to enter the children's compact disc market with "Fantasia" and "Snow White." And Disney Educational Productions continued to excel in its 36th year, collecting 18 awards and honorable mentions in internationally recognized festivals for films and filmstrips.

Disney's award-winning documentary "AIDS," featuring Ally Sheedy and made for junior and senior high school students, created such demand that a companion film for concerned adults has just been completed–"AIDS: What Do We Tell Our Children?," starring Carol Burnett.

Consumer Products Sales Promotion was busy in 1987, generating income and important media support for major Disney marketing programs through promotional tie-ins. Sales Promotion worked with Coca-Cola USA on a variety of promotions tied to Walt Disney World's 15th anniversary. They included 36 designs of Disney characters and various Walt Disney World locations on cans of Coke distributed throughout the U.S. Also, Disney licensed the Sport Goofy character to the Vail (Colo.) Ski Resort.

CONSUMER PRODUCTS

(In millions)	1987	Change	1986	Change	1985
Revenues	$167.0	+28%	$130.2	+6%	$122.6
Operating income	97.3	+34%	72.4	+29%	56.3
Operating margin	58%		56%		46%

Revenues, operating income and margins increased in 1987 due to greater demand for Disney licensed products, primarily in apparel, toy and publication categories. Foreign revenue and operating income were significantly higher in 1987 due both to increases in licensing activities and to the lower value of the U.S. dollar. Revenues and income have benefited each year since 1985 from the decreasing value of the U.S. dollar in relation to major foreign currencies.

Clockwise, plush dolls celebrate "DuckTales"; successful mail-order catalog offers 200-plus items; Disney Publications' "DuckTales" activity book and new Mickey Mouse magazine, for kids and their parents; "Rock Around the Mouse" features singer Little Richard and 50's-style rock; Educational Productions teaches economics through "Winnie the Pooh and the Value of Things"; J.G. Hook infant clothing helped Disney expand into top-quality children's lines.

In 1952, Walt Disney sorted through the studio's cadre of creative talent and assembled the team of imaginative spirits that would help him invent his newest project–Disneyland.

In the 35 years since, this organization of dreamers and doers has delivered every new Disney park and attraction, from Magic Kingdoms to the majestic Epcot Center, from the outer space of California's Star Tours to the depths of The Living Seas in Florida.

Martin A. Sklar
President, Walt Disney Imagineering

The original Disneyland cost $17 million from design to debut. This year, Walt Disney Imagineering's visionaries and engineers and project managers are involved in the creation and construction of ventures valued at more than $2 billion.

"Walt's philosophy still guides us," said Imagineering President Marty Sklar. "He always pressed us to go beyond what we had done before. He wasn't interested in repeating himself."

Mr. Sklar, promoted to president in September when Carl Bongirno stepped down for reasons of health, oversees the development of Euro Disneyland's Magic Kingdom and associated projects that will turn seven square miles of French countryside into an international entertainment showplace. Already 130 of Imagineering's staff of 900 are involved.

Euro Disneyland, while certainly the largest, is just one of some 40 dreams being pursued at WDI. The Disney-MGM Studios will open at Walt Disney World later this year. By mid-1989 the studio tour portion of this attraction will offer rides *through* classic films as well as views of movies and TV shows in progress. Typhoon Lagoon, now under construction, will be the world's largest water theme park, complete with a special mythology developed by the Imagineers.

Another figment will soon become fact at Epcot Center. The Wonders of Life pavilion, presented by Metropolitan Life Insurance Co., will offer a humorous and educational thrill ride through the human body using the film and flight-simulator technology WDI pioneered in Disneyland's Star Tours.

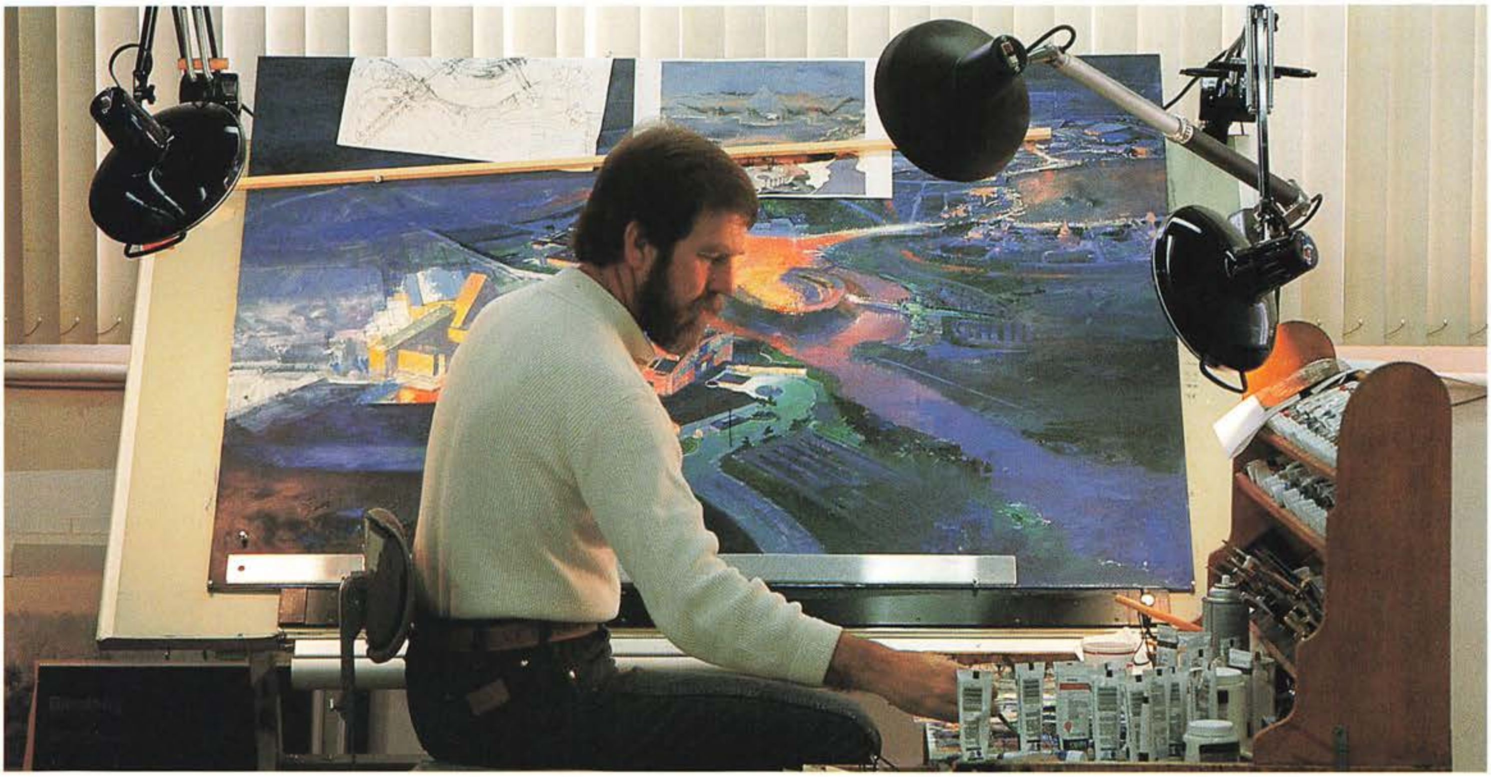
In California, Imagineers have moved Splash Mountain off the drawing boards and onto a Disneyland site between the Haunted Mansion and the Country Bear Playhouse. This flume-ride attraction will combine water thrills with Audio-Animatronics versions of Brer Rabbit, Brer Bear and Brer Fox from Disney's 1948 classic, "Song of the South."

WDI also made things happen at Tokyo Disneyland. Imagineering and the park's Japanese owners agreed on a five-year attraction development plan, and Captain Eo and Big Thunder Mountain opened to enthusiastic receptions. In addition, construction was started on Star Tours.

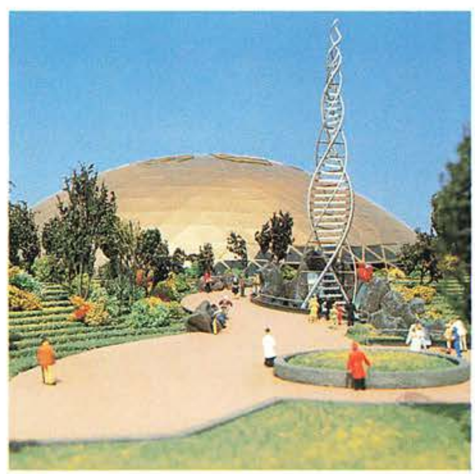
"Ideas are the currency of the realm at Imagineering," *The Wall Street Journal* reported last January. "Even its most fantastic ideas have a way of resurfacing until someone figures out a way to make them work."

Many WDI employees are convinced theirs are the world's most rewarding jobs, and they're not alone.

"If I could pick any job in the company, I'd move my office to the Imagineering building and immerse myself in all that lunacy and free thinking," said Disney Chairman Michael D. Eisner. "Imagineering is the lifeblood of this company."



Walt Disney Imagineering invents new attractions, and everything comes in model form first. Top, Pleasure Island opens this fall at Walt Disney World. Above, illustrator renders two new hotels for Florida property. Left, Imagineer touches up Audio-Animatronics gangster for Great Moments at the Movies at Disney-MGM Studios; Wonders of Life pavilion (right), presented by Metropolitan Life Insurance Co., will open in 1989.



Florida-based Disney Development Company (DDC), which creates innovative ways to maximize land values for Disney-owned property outside the theme parks' gates, completed the busiest year in its history.

Though its primary focus is Disney's vast undeveloped acreage in Central Florida, DDC is also actively involved at development sites in California and France. It works with other divisions on projects ranging from a new Disney corporate headquarters to the hotels of Walt Disney World, from Florida shopping centers to the development projects that will be adjacent to the Magic Kingdom at Euro Disneyland.

Peter S. Rummel
President, Disney Development Company

But DDC is more than just a development company.

"Our challenge is to create value with development projects that will make a unique Disney statement," President Peter Rummell said.

"In the area of design, we have created a new point of view–we call it entertainment architecture. Its objective is to make a building functional and economical but at the same time have it make you smile when you look at it. Our buildings are designed to evoke a special 'mood' for our guests."

Right now Disney Development is managing completion of the Grand Floridian Beach Resort, a 900-room, $120-million facility that will bring turn-of-the-century, Victorian-themed lodging elegance to Walt Disney World. The nearby Caribbean Beach Resort will fill a need for medium-priced accommodations. Its 2,100 rooms are being built in two phases, with the first open to the public by the end of 1988.

Other Florida projects are equally impressive. DDC is completing the design of two resort and two convention hotels next to Epcot Center. These projects will add approximately 3,500 rooms to hotel capacity by the early 1990's.

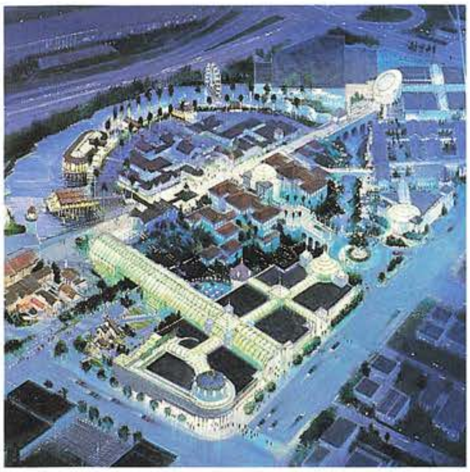
Besides managing extensive roadway and infrastructure development near Epcot Center and the Disney-MGM Studios, DDC has designed the 350,000-square-foot Walt Disney World headquarters building and a 60,000-square-foot casting center.

Construction of a 140,000-square-foot commercial center with retail and food facilities will begin this spring, and a feasibility study is under way for a regional mall at Walt Disney World Village that would introduce anchor stores unique to the area as well as scores of specialty outlets. In addition, AMC Theatres will open a 10-screen cineplex in the village by the end of the year.

Looking at projects in progress and on the drawing boards, the *Orlando Sentinel* concluded that what Disney Development has yet to do there "may transform Central Florida as much as Walt Disney World did after its opening in 1971."

In California, the Disney-MGM Studio Backlot commands DDC's attention. Still in the exploratory stages, it would combine entertainment themes with shopping and dining in a unique, 40-acre complex in Burbank's downtown area.

"Thirty years ago Walt Disney's concept of the theme park represented a complete departure from the amusement park of the day," Mr. Rummell said. "Now Disney Development is expanding further, beyond the theme parks into a more diversified real estate portfolio. And we're doing so with an outstanding team of professionals."



In California, Disney Development is exploring feasibility of Disney-MGM Studio Backlot (left) in Burbank's downtown area; in Florida, Caribbean Beach Resort (right) will be Walt Disney World's first moderate-priced hotel; below, construction continues on Grand Floridian Beach Resort, already taking reservations for mid-1988.

After more than a year of intense negotiations, Disney Chairman Michael Eisner and French Premier Jacques Chirac signed the contract in March that will bring Euro Disneyland to a suburb 20 miles east of Paris. Groundbreaking is scheduled for summer.

Robert J. Fitzpatrick
President, Euro Disneyland

Robert J. Fitzpatrick, former president of California Institute of the Arts and director of the Los Angeles Festival, joined Disney as president of the new subsidiary.

When it opens in 1992, Euro Disneyland will offer visitors a Magic Kingdom similar to the three existing Disney parks in California, Florida and Japan–but with a strong French and European connection.

Eventually its 4,800 acres will include hotels, campgrounds, dining and shopping facilities, office and residential developments.

Disney will be an equity investor and receive royalties based on gross revenues from admissions, food and merchandise. It also will be paid a fee to operate the Magic Kingdom and other resort elements.

When it opens, the Magic Kingdom will employ several thousand people, many of them from the immediate area. In addition to French-speaking employees, the park will recruit people from countries where other European languages are spoken.

The choice of Paris was a natural one. Not only is it one of Europe's largest cities, it is also an extremely popular tourist destination.

The airports, mass transit systems and superhighways in and around Paris are among the best in the world. As part of the Euro Disneyland agreement, the French government will extend expressways and the Paris Metro rail system to the park's front gate.

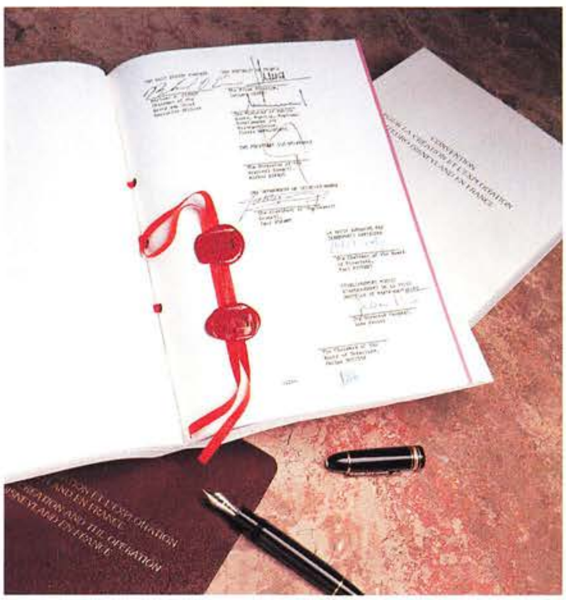
Disney is convinced that Western Europe offers unmatched marketing potential. More than 109 million people live within a six-hour drive of Paris, more than 310 million within a two-hour flight. By comparison, a more widespread U.S. population of 240 million supports two Disney locations.

Research shows that per capita income in Western Europe is more than sufficient to support Euro Disneyland. The Ile de France region, site of the development, is particularly suitable, having one of Europe's highest income levels.

Vacation habits, too, indicate the park's vast potential. Europeans customarily take four to six weeks a year, and one person in three takes at least two separate vacations. A recent study commissioned by the Ile de France Regional Council found that fully 65 percent of the French population plans to visit Euro Disneyland, an astonishing number. Euro Disneyland is expected to have a marked effect on travel patterns throughout Western Europe.

Disney will not come to the continent as a stranger. The company's animated films have been consistently popular for decades, and weekly Disney television programming now appears in every Western European country. Further, the company's home video products are widely available, and a line of high-fashion clothing based on the Disney characters, launched in France, has become extremely successful worldwide.

Euro Disneyland will operate year round. Disney plans to weatherize the park to an even greater degree than Tokyo Disneyland, which is open all year in a climate much like that of Paris.



When Magic Kingdom portion of Euro Disneyland opens in 1992, it will be first project developed and actually built by Disney outside U.S. Above, show designers and model builders are busy on Discoveryland, all-new segment based on sci-fi adventure tales of Jules Verne. Left, rendering of entrance promises elegance and magic. It all started after contract (opposite page) was signed in March.

FINANCIAL REVIEW
(In millions, except per share data)

FINANCIAL OBJECTIVES

The Walt Disney Company's economic goal is to maximize stockholders' wealth principally through common stock appreciation. This will be accomplished by meeting the following objectives.

- □ Increase earnings per share (EPS) at 20% annually over any five year period.
- □ Maintain high capital productivity with 20% return on equity (ROE) through profitable reinvestment of cash flows.

Achievement of these objectives has created dramatic value increases for the Company's stockholders. The market value of Disney's equity increased from $2 billion in 1984 to $10 billion in 1987, a 400% rise in the past three years.

- □ EPS rose 77% in 1987 and increased an average of 69% annually during the past three years.
- □ ROE increased to 27% in 1987 compared to 8% in 1984.

Earnings and ROE performance place the Company among the top of the Standard & Poor's 500 firms, as shown on the charts to the right.

The Company generates cash flow substantially in excess of earnings. The table below shows that cash flow has averaged 152% higher than accounting earnings over the past three years.

Year	Cash Flow	Net Income
1985	$518.8	$173.5
1986	668.4	247.3
1987	830.6	444.7

Unused debt capacity has increased to approximately $2 billion, as borrowings have fallen to 24% of total capital. Strong earnings before interest and taxes increased the coverage of interest expense to 16 times in 1987 compared to less than one in 1984. The combination of high cash flows and substantial excess debt capacity provides the Company the financial resources to expand and provide earnings growth into the 1990's.

Expansion by internal development and acquisition is a major contributor to earnings growth. New investments must be consistent with our strategic plan and meet our rigorous financial return criteria. Major expansion projects started in 1987 follow.

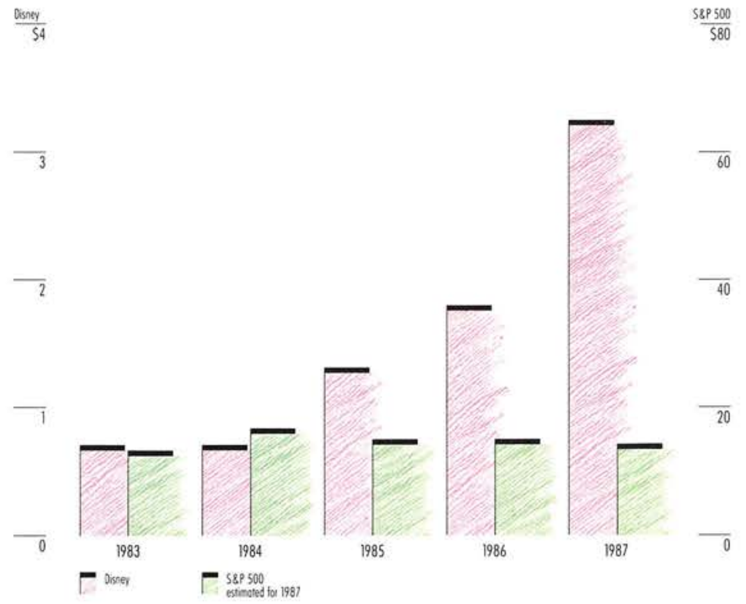
- □ Disney-MGM Studio Tour
- □ Euro Disneyland
- □ Theme park hotel expansion

	Rooms
- Grand Floridian Beach Resort	900
- Disneyland Hotel	1,200
- Caribbean Beach Resort	2,100
- Resort and convention hotels	3,500
	7,700

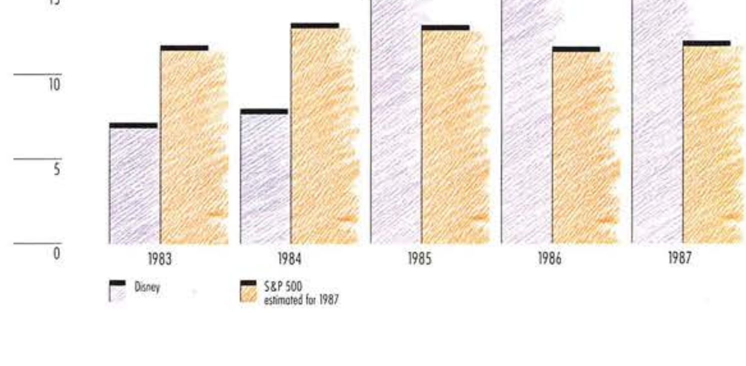
- □ KHJ, Los Angeles television station
- □ The Disney Stores

New projects under construction or development, combined with the ability to increase earnings from existing assets, principally through pricing flexibility at the parks, provide a high probability of the Company achieving its earnings growth goals into the 1990's.

EARNINGS PER SHARE

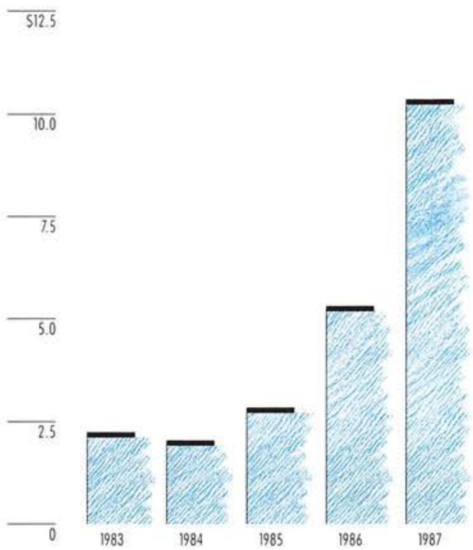


RETURN ON EQUITY

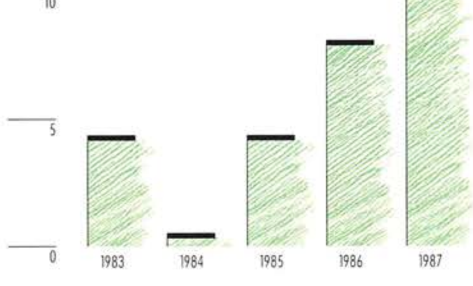


EQUITY MARKET VALUE

(In billions)



INTEREST COVERAGE RATIO



OPERATIONS

Revenues and Earnings

In 1987, the Company generated record revenues of almost $2.9 billion, representing a strong increase of 33% over 1986. The compounded annual growth rate for revenues for the last five years was 23%. Net income increased 80% to $444.7 million in 1987 from $247.3 million in 1986. Earnings per share rose significantly in 1987 to $3.23 compared to $1.82 in the prior year.

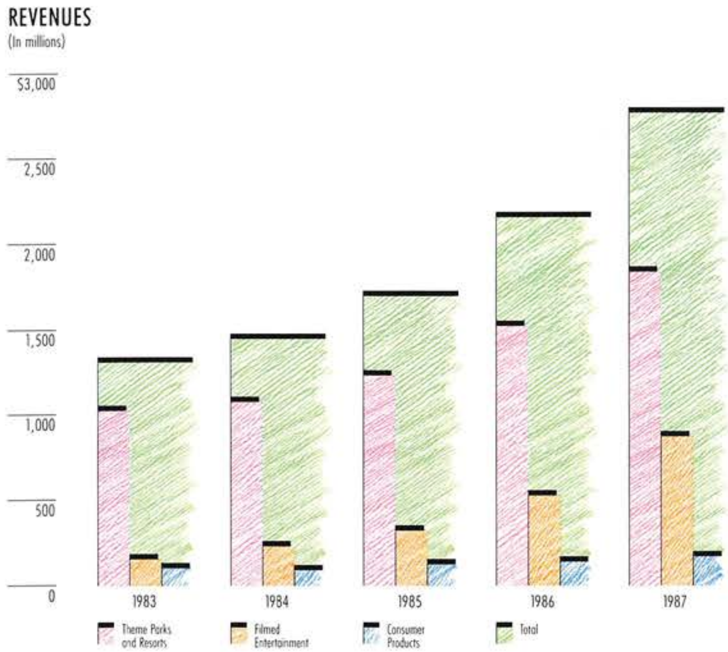
	1987	Change	1986	Change	1985
Revenues	$2,876.8	+33%	$2,165.8	+27%	$1,700.1
Operating income	776.8	+47%	527.7	+53%	345.7
Operating margin	27%		24%		20%
Net income	444.7	+80%	247.3	+43%	173.5
Per share	3.23		1.82		1.29

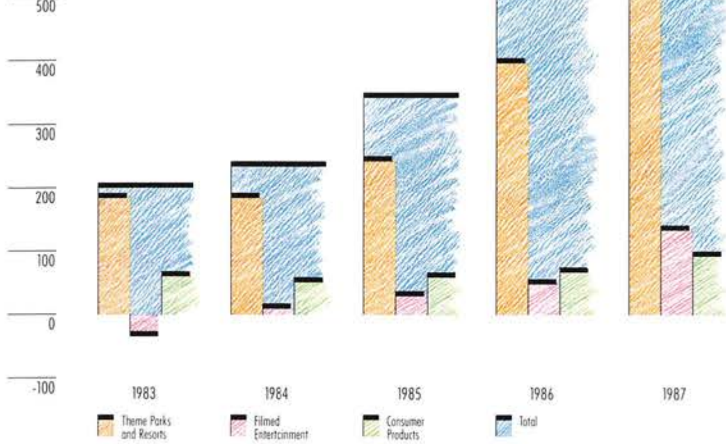
Each of the Company's three operating segments contributed to the record performance in 1987. Theme park and resort operations at Walt Disney World and Disneyland were up 36% in 1987 and have sustained a 34% compounded annual growth rate in operating income for the last five years. The filmed entertainment group has experienced significant growth and success during 1987, with operating income rising 153% from the prior year. Consumer products operating income also increased 34% in 1987.

Operating margins remain strong due to the continued efforts by management to increase revenues with creative marketing and pricing programs, and to control costs.

The Company has restated its revenues and operating income reported in prior years to reflect the disposition of its Community Development segment. Income from continuing operations of $392.3 million reflects a one year growth of 84%, a significant increase from $213.2 million in 1986. Earnings per share from continuing operations rose to $2.85 compared to $1.57, as restated, for the prior year. The earnings per share compounded annual growth rate for the last five years was 31%.

Operating results and management's financial review of operations by business segment are discussed in the forepart of this report.





Corporate Expenses (Income)

	1987	Change	1986	Change	1985
General and administrative	$70.3	+7%	$66.0	+32%	$49.9
Percentage of revenues	2.4%		3.0%		2.9%

General and administrative expenses increased 7% in 1987 and 32% in 1986. The Company has been successful in reducing corporate overhead as a percentage of revenues despite the dramatic increase in business activity. The annual increases were due in part to the increase in the market price of the Company's common stock, which resulted in higher compensation expense relating to stock appreciation rights and incentive programs.

	1987	Change	1986	Change	1985
Interest expense	$29.1	−34%	$44.1	−19%	$54.6
Average year end interest rate	6.8%		8.8%		9.0%

Interest expense has declined in the past three years due to a decrease of 29% in average borrowings and lower interest rates. Management has taken advantage of favorable conditions in the financial markets by replacing existing higher interest rate debt with new debt at lower interest rates. These actions have significantly reduced interest expense and average year end rates from 9.0% in 1985 to 6.8% in 1987.

	1987	Change	1986	Change	1985
Investment and interest income	$49.0	+965%	$4.6	+5%	$4.4

The Company has invested its excess cash in short-term deposits and marketable securities. During 1987, the Company recognized investment and interest income of $49.0 million, compared to relatively low investment income in prior years.

Income Taxes

	1987	Change	1986	Change	1985
Income taxes	$334.1	+60%	$209.0	+84%	$113.3
Effective income tax rate	46.0%		49.5%		46.1%

The Company's 1987 effective income tax rate from continuing operations is composed primarily of a blended statutory Federal income tax rate of 43% (46% in 1986) and state income taxes. The 1986 and 1985 rates also exclude the effects of discontinued operations. Beginning in 1988, the Federal income tax rate will be reduced, thereby benefiting the Company's future net income.

CONSOLIDATED STATEMENT OF INCOME
(In millions, except per share data)

Year ended September 30	1987	1986	1985
Revenues			
Theme parks and resorts	$1,834.2	$1,523.9	$1,257.5
Filmed entertainment	875.6	511.7	320.0
Consumer products	167.0	130.2	122.6
	2,876.8	2,165.8	1,700.1
Costs and Expenses			
Theme parks and resorts	1,285.3	1,120.2	1,001.8
Filmed entertainment	745.0	460.1	286.3
Consumer products	69.7	57.8	66.3
	2,100.0	1,638.1	1,354.4
Operating Income			
Theme parks and resorts	548.9	403.7	255.7
Filmed entertainment	130.6	51.6	33.7
Consumer products	97.3	72.4	56.3
	776.8	527.7	345.7
Corporate Expenses (Income)			
General and administrative	70.3	66.0	49.9
Interest expense	29.1	44.1	54.6
Investment and interest income	(49.0)	(4.6)	(4.4)
	50.4	105.5	100.1
Income From Continuing Operations Before Income Taxes	726.4	422.2	245.6
Income taxes	334.1	209.0	113.3
Income From Continuing Operations	392.3	213.2	132.3
Discontinued operations, net	52.4	34.1	41.2
Net Income	$ 444.7	$ 247.3	$ 173.5
Earnings Per Share			
Continuing operations	$2.85	$1.57	$ .98
Discontinued operations	.38	.25	.31
	$3.23	$1.82	$1.29
Average Number of Common and Common Equivalent Shares Outstanding	137.8	135.8	134.8

FINANCIAL POSITION

Assets

Maximizing shareholder value through disciplined asset management continues to be a primary corporate goal. Return on assets has increased to 13% in 1987 from 6% in 1985. Total assets of $3.8 billion at year end reflect a 13% compounded annual growth rate for the last five years.

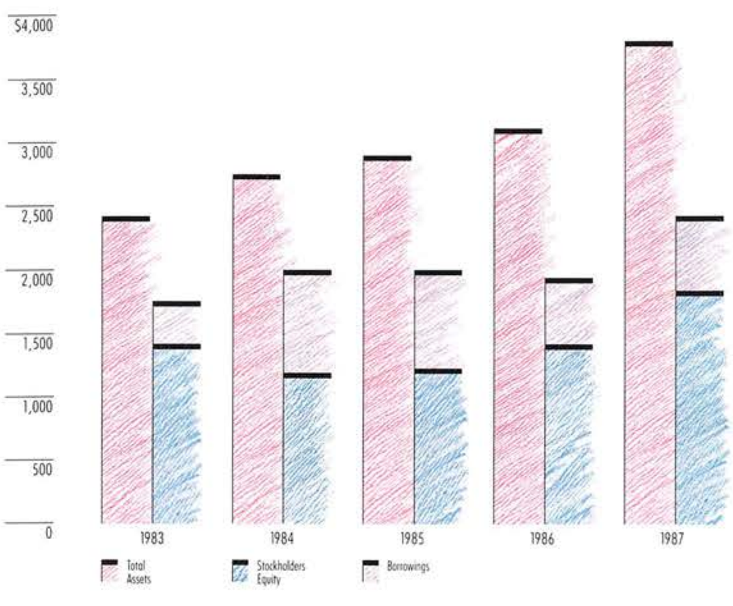
	1987	Change	1986	Change	1985
Total assets	$3,806.3	+22%	$3,121.0	+8%	$2,897.3
Return on assets	13%		8%		6%

Cash and short term investments, together with accounts and notes receivable, have tripled since a year ago. Approximately $450 million of the increase in notes and other receivables relate to the sale of the real estate inventories and other assets of Arvida and will be collected primarily during the first quarter of fiscal 1988.

The decrease in film production costs is attributable, in part, to the Silver Screen III Limited Partnership's investments in the Company's theatrical films, which were made in 1987 and will continue into 1988. The Company invests in network television, first-run syndication and The Disney Channel programming.

TOTAL ASSETS, STOCKHOLDERS EQUITY AND BORROWINGS

(In millions)



Liabilities and Stockholders Equity

While borrowings increased slightly in 1987 to $584.5 million, the ratio of borrowings to total capitalization dropped to 24% from 41% in 1985.

	1987	Change	1986	Change	1985
Borrowings	$584.5	+7%	$547.2	−34%	$823.1
Ratio to total capital	24%		28%		41%

The Company received over $117 million from two new bond issues in 1987. The Company retired its yen loan and its 12.50% $150 million Eurodollar notes, reduced the amounts owed to the Silver Screen II Limited Partnership and paid off debt balances secured by Arvida real estate inventories.

	1987	Change	1986	Change	1985
Stockholders equity	$1,845.4	+30%	$1,418.7	+20%	$1,184.9
Per share	14.02	+29%	10.86	+19%	9.16
Return on equity	27%		19%		15%

Since 1984, an important goal of management has been to improve stockholders return on equity. The enhanced operating results discussed above have enabled the Company to meet that goal in 1987. Stockholders return on equity has increased to 27% in 1987 from 8% in 1984.

Financial Resources and Liquidity

The Company's financial condition remains strong and adequate to meet future financing requirements. In addition to strong cash flows from operations, the Company has sufficient debt capacity to finance its on-going capital expenditure programs as well as to take advantage of internal and external development and acquisition opportunities.

CONSOLIDATED BALANCE SHEET
(In millions)

September 30	1987	1986
Assets		
Cash and short term investments	$ 344.0	$ 70.0
Accounts and notes receivable	820.7	318.3
Merchandise inventories	122.8	93.0
Film production costs	174.8	230.1
Real estate inventories		214.0
Entertainment attractions and other property, at cost		
Attractions, buildings and equipment	2,794.2	2,727.9
Accumulated depreciation	(937.6)	(812.2)
	1,856.6	1,915.7
Projects in progress	265.7	106.1
Land	25.0	26.8
	2,147.3	2,048.6
Other assets	196.7	147.0
	$3,806.3	$3,121.0
Liabilities and Stockholders Equity		
Accounts payable, payroll and other accrued liabilities	$ 464.3	$ 339.8
Income taxes payable	122.9	96.6
Borrowings	584.5	547.2
Unearned deposits and advances	193.2	201.0
Deferred income taxes	596.0	517.7
Commitments and contingencies		
Stockholders equity		
Preferred shares, $0.10 par		
Authorized-5.0 shares, none issued		
Common shares, $0.10 par		
Authorized-300.0 shares		
Outstanding-131.7 and 130.7 shares	307.2	283.2
Retained earnings	1,538.2	1,135.5
	1,845.4	1,418.7
	$3,806.3	$3,121.0

CHANGES IN FINANCIAL POSITION

Cash Provided by Continuing Operations
Cash provided by continuing operations for 1987 was $831 million, up 24% from 1986 due to substantially greater operating profitability.

	1987	Change	1986	Change	1985
Cash provided by continuing operations	$830.6	+24%	$668.4	+29%	$518.8
Ratio to borrowings	147%		98%		62%

The Company's cash provided by continuing operations is substantially greater than net income due principally to noncash charges of deferred taxes, depreciation and amortization of film production costs. Cash was primarily used to fund investing activities totalling $507 million.

Investing Activities
Investments in entertainment attractions and other property rose in 1987 to $280 million and are expected to rise over the next two years as the Company develops its properties at Walt Disney World and other locations.

	1987	Change	1986	Change	1985
Additions to entertainment attractions and other property	$280.1	+61%	$174.1	−3%	$179.8
Additions to film production costs	178.3	−12%	203.7	+36%	149.9

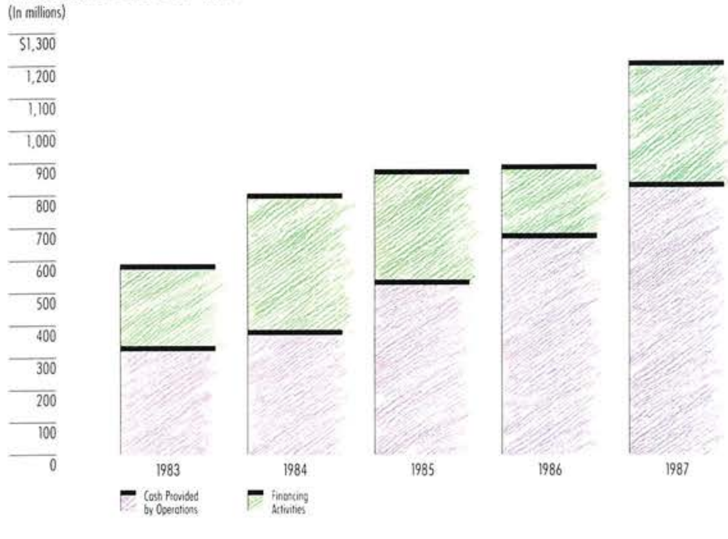
Additions to entertainment attractions and other property have consisted primarily of projects in progress, including the Grand Floridian Beach Resort and the Caribbean Beach Resort, the Disney-MGM Studio Tour and the Norway Pavilion at Walt Disney World. The Grand Floridian Beach Resort is scheduled to open with 900 rooms in 1988 at an estimated cost of $120 million. The first phase of the $135 million 2,100 room Caribbean Beach Resort is scheduled to open by the end of 1988. The Studio Tour, a separately gated attraction, is scheduled to open in 1989 at a cost in excess of $400 million.

The Company plans to finance future theme park and resort attractions, hotels and other development projects with third party participants when the economic terms are attractive. Consistent with that strategy, the Company plans to develop by 1992, Euro Disneyland located approximately twenty miles east of Paris, France. The Company is in the process of financing the Euro Disneyland owner company, in which Disney will also be an equity investor. The Company will receive substantial royalties and management fees as the operator of the facilities.

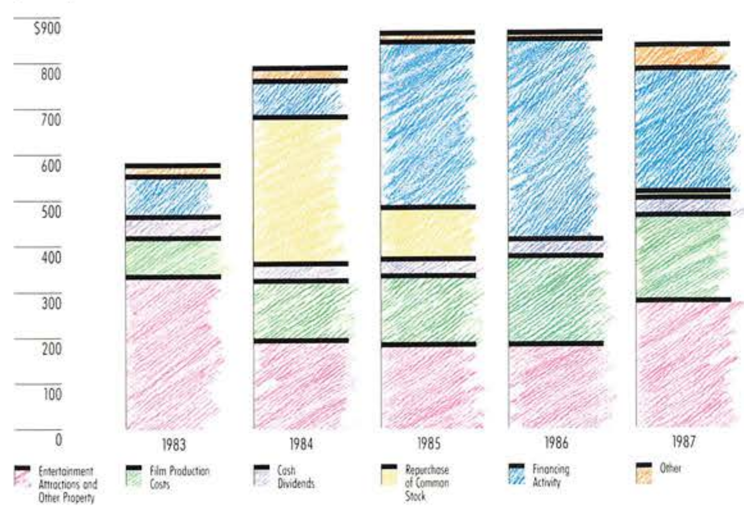
Financing Activities
During 1987, the Company issued ten year Swiss franc bonds and three year Australian dollar notes and, concurrently with each issue, entered into forward exchange agreements totalling approximately 18 billion yen, or $117 million, having effective rates of 6.05% and 4.25%, respectively. Other sources of borrowings included $180 million in commercial paper.

The Company has hedged its yen borrowings and a portion of its cumulative yen royalties from Tokyo Disneyland and other Japanese royalty sources, thus offsetting the effects of fluctuations in the exchange rate.

PRINICPAL SOURCES OF CASH
(In millions)



PRINICPAL USES OF CASH
(In millions)



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In millions)

Year ended September 30	1987	1986	1985
*Cash Provided by Continuing Operations Before Income Taxes**	$1,073.4	$714.3	$450.4
Income taxes (paid) received, net	(242.8)	(45.9)	68.4
Cash Provided by Continuing Operations	830.6	668.4	518.8
Investing Activities			
Entertainment attractions and other property, net	280.1	174.1	179.8
Film production costs	178.3	203.7	149.9
Marketable securities and other, net	48.4	8.5	16.0
	506.8	386.3	345.7
Financing Activities			
Borrowings	342.4	187.7	342.0
Reduction of borrowings	(279.7)	(434.2)	(364.5)
Cash dividends	(42.0)	(41.0)	(39.8)
Other	24.0	27.5	(101.5)
	44.7	(260.0)	(163.8)
Cash Provided (Required) by Discontinued Segment	(94.5)	9.2	(5.9)
Increase in Cash and Short Term Investments	274.0	31.3	3.4
Cash and Short Term Investments, Beginning of Year	70.0	38.7	35.3
Cash and Short Term Investments, End of Year	$ 344.0	$ 70.0	$ 38.7

*The difference between income from continuing operations before income taxes as shown on the Consolidated Statement of Income and cash provided by continuing operations before income taxes is explained as follows:

	1987	1986	1985
Income from continuing operations before income taxes	$ 726.4	$422.2	$245.6
Charges to income not requiring cash outlays:			
Depreciation	143.1	120.6	109.6
Amortization of film production costs	233.6	155.7	69.2
Changes in:			
Accounts and notes receivable	(145.7)	(86.8)	(21.2)
Merchandise inventories	(31.8)	(8.1)	(1.1)
Accounts payable, payroll and other accrued liabilities	156.2	72.2	14.9
Other	(8.4)	38.5	33.4
	347.0	292.1	204.8
Cash provided by continuing operations before income taxes	$1,073.4	$714.3	$450.4

Presentation of the Financial Information

Management's explanation and interpretation of the Company's overall operating results and financial position, together with the basic financial statements, as presented in this section, should be read in conjunction with the entire report. For readers desiring additional detailed financial information, the notes to consolidated financial statements, although an integral part of the basic financial statements, are included in a separate section of this report.

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position.

The Board of Directors of the Company has an Audit Review Committee composed of five nonmanagement Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Registrar and Stock Transfer Agent

Security Pacific Corporation

Stock Exchanges

The Common Stock of the Company is listed for trading on the New York (principal market), Pacific, Swiss and Tokyo Stock Exchanges. Certain debt securities of the Company are listed on the Luxembourg and Swiss Stock Exchanges.

Independent Accountants

Price Waterhouse, Los Angeles

Other Information

A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to Stock Transfer Agent, Security Pacific National Bank, P.O. Box 60070, Terminal Annex, Los Angeles, California 90060-0070.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of The Walt Disney Company

In our opinion, the consolidated balance sheet (page 37) and the related consolidated statements of income (page 35) and changes in financial position (page 39) present fairly the financial position of The Walt Disney Company and its subsidiaries at September 30, 1987 and 1986, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1987, in conformity with generally accepted accounting principles consistently applied during the period. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Los Angeles, California
November 23, 1987

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(To be read in conjunction with the consolidated financial statements on pages 35, 37 and 39.)

1. Description of the Business and Summary of Significant Accounting Policies

THE WALT DISNEY COMPANY and its subsidiaries (the Company) is a diversified international company engaged in family entertainment with operations in the following business segments:

THEME PARKS AND RESORTS
The Company operates the Disneyland theme park in California and the Walt Disney World destination resort in Florida. The Walt Disney World complex includes the Magic Kingdom and Epcot Center theme parks, hotels, villas, a shopping village, a conference center, campgrounds, golf courses and other recreational facilities. The Company receives royalties on revenues generated by the Tokyo Disneyland theme park near Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation.

FILMED ENTERTAINMENT
The Company produces and acquires live action motion pictures and produces animated motion pictures for distribution to the theatrical, television and home video markets. The Company also produces original television product for network and first run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and through foreign distribution companies throughout the rest of the world. The Company provides programming for and operates The Disney Channel, a pay television programming service.

CONSUMER PRODUCTS
The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company produces audio products primarily for the children's market and produces film, audio and computer software products for the educational market. The Company licenses and distributes these products throughout the world.

The following is a summary of the Company's significant accounting policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all wholly owned. The consolidated financial statements and supplementary information for all years presented have been restated to reflect the disposition of the Community Development segment.

Revenue Recognition
Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenues from television licensing agreements are recorded when the program material is available for telecasting by the licensee and when certain other conditions are met.

Revenues from participant/sponsors at the theme parks are recorded over the period of the applicable agreements commencing with the opening of the attraction.

Merchandise Inventories
Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and the retail method and are stated at the lower of cost or market.

Film Production Costs
Film production costs are amortized and participation expense is accrued in the ratio that the current period's gross revenues bear to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues are reviewed periodically and amortization is adjusted accordingly. Programming costs for The Disney Channel are amortized primarily on a straight-line basis over the estimated useful lives of the programs.

Entertainment Attractions and Other Property
Depreciation is provided principally on the straight-line method using estimated service lives ranging from three to fifty years.

Other Assets
Rights to the name, likeness, and portrait of Walt Disney are being amortized over forty years.

2. Film Production Costs

(In millions)	1987	1986
Released, less amortization	$128.7	$108.0
Completed, not yet released	2.9	30.6
In process	43.2	91.5
	$174.8	$230.1

Based on management's total gross revenue estimates as of September 30, 1987, approximately 81% of unamortized film production costs applicable to released theatrical and television productions will be amortized during the next three years. Television programming included in film production costs total $109.2 million and $100.6 million at September 30, 1987 and 1986, respectively.

3. Borrowings

(In millions)	1987	1986
Commercial paper	$195.0	$15.0
4.75% Swiss franc bonds due October, 1996	64.7	
9.125% ECU notes due March, 1995, principal payable in annual installments of $12.5 commencing March, 1991	62.4	62.4
Borrowings from limited partnership, net of unamortized discount, due in varying amounts through 1989	59.9	111.1
8.75% ECU notes due February, 1994, principal payable in annual installments of $5.4 commencing February, 1990, with balance due at maturity	54.1	54.1
14.50% Australian dollar notes due May, 1990	52.4	
6.625% Euroyen notes due February, 1996	49.5	49.5
9.32% pounds sterling term loan due September, 1996, principal and interest payable in varying semi-annual installments	29.7	31.5
12.50% Eurodollar notes		150.0
6.40% yen term loan		47.5
Other	16.8	26.1
	$584.5	$547.2

Borrowings have the following scheduled maturities (in millions): $55.0 in 1988; $9.2 in 1989; $60.3 in 1990; $37.4 in 1991; $21.1 in 1992; and $401.5 thereafter.

The Company has available through 1990 unsecured revolving lines of bank credit of up to $385 million for general corporate purposes, including the support of commercial paper borrowings. The Company has the option to borrow at various interest rates not to exceed LIBOR. As of September 30, 1987 and 1986, the interest rates associated with commercial paper borrowings were 7.6% and 5.9%, respectively.

The Company entered into forward exchange agreements which converted the 4.75% Swiss franc bonds and the 14.50% Australian dollar notes into Japanese yen equivalents with effective interest rates of 6.05% and 4.25%, respectively. The 9.125% and the 8.75% ECU notes were converted into Japanese yen equivalents in 1986 with effective interest rates of 6.565% and 7.065%, respectively. The Company has hedged its yen borrowings and a portion of its cumulative yen royalties from Tokyo Disneyland and other Japanese royalty sources, thus offsetting the effects of fluctuations in the exchange rate.

The Company capitalizes interest on assets constructed for its theme park and resort developments, and on theatrical and television productions in process. In 1987, 1986 and 1985, respectively, total interest costs incurred were $52.7, $67.1 and $86.2 million, of which $23.6, $23.0 and $31.6 million were capitalized.

4. Income Taxes

(In millions)	1987	1986	1985
Income Before Income Taxes			
Domestic (including U.S. exports)	$697.8	$398.7	$221.9
Discontinued operations	71.3	40.0	64.3
Foreign subsidiaries	28.6	23.5	23.7
Income before income taxes	$797.7	$462.2	$309.9
Provision for Income Taxes			
Current			
Federal	$212.5	$ 55.6	$ 5.0
State	37.1	13.4	6.0
Foreign subsidiaries	10.9	8.8	8.4
Other foreign	14.2	7.8	7.6
	274.7	85.6	27.0
Deferred			
Federal	61.4	113.6	98.0
State	16.9	15.7	11.4
	78.3	129.3	109.4
Provision for income taxes	$353.0	$214.9	$136.4

Included in provision for income taxes for 1987, 1986 and 1985 is a provision for discontinued operations of $18.9, $5.9 and $23.1 million, respectively.

Components of Provision for Deferred Income Taxes	1987	1986	1985
Depreciation and amortization	$15.1	$ 73.8	$ 76.3
Foreign operations	39.8	16.2	1.6
Installment sales	40.2	(1.2)	11.4
Unusual charges	1.6	34.4	6.5
Capitalized interest and property taxes	(16.2)	10.0	10.1
Other	(2.2)	(3.9)	3.5
Provision for deferred income taxes	$78.3	$129.3	$109.4

Reconciliation of Effective Income Tax Rate	1987	1986	1985
Federal income tax rate	43.0%	46.0%	46.0%
State income taxes, net of Federal income tax benefit	3.9	3.4	3.0
Investment tax credits, flow through method	(.7)	(2.3)	(3.4)
Difference in carrying value of certain Arvida assets and liabilities	(1.7)	(1.3)	(2.3)
Other	(.3)	.7	.7
Effective income tax rate	44.2%	46.5%	44.0%

5. Pension Programs

The Company contributes to various tax-qualified pension plans under union and industry-wide agreements. Contributions are based upon the hours worked or gross wages paid to covered employees. The Company's share of the unfunded liability, if any, related to these multi-employer plans is not determinable.

The Company also maintains tax-qualified pension plans covering most of its domestic salaried and hourly employees not covered by union or industry-wide pension plans, and a non-qualified, unfunded key employee retirement plan. Pension expense amounts meet or exceed the minimum required under the Employee Retirement Income Security Act of 1974.

A comparison of the accumulated plan benefits for these pension plans with net assets available for benefits as of the dates of the latest available actuarial valuations is as follows (in millions):

	1987	1986
Vested	$108.0	$ 92.5
Non-vested	17.7	13.7
Actuarial present value of accumulated plan benefits	$125.7	$106.2
Net assets available for benefits	$128.3	$110.5

The 1987 actuarial present value of accumulated plan benefits was calculated based upon actuarial interest rate assumptions ranging from 9.5% to 12%.

The aggregate amounts expensed for all of these plans were $17.3, $16.0 and $14.7 million for fiscal years 1987, 1986 and 1985, respectively, and include current service costs and amortization of unfunded prior service costs over 10 years.

6. Stock Incentive Plans

Under various plans, the Company may grant stock option and other awards to key executives, management and creative personnel. Transactions under the various stock option and incentive plans during fiscal 1987 were as follows:

	Number of Shares	
(In millions)	Awards Granted	Available for Grant
Outstanding at September 30, 1986	9.8	.8
Awards cancelled	(.1)	.1
Awards granted	.5	(.5)
Awards exercised	(1.1)	
Outstanding at September 30, 1987	9.1	.4

Stock option awards are granted at prices equal to market price on the date of grant and are exercisable beginning not less than on year after date of grant. All options expire ten years after the date of grant. Options outstanding at September 30, 1987 and 1986, respectively, range in price from $9.42 to $78.63 and $9.42 to $50.69 per share. Options of 3.3 million shares exercisable at September 30, 1987 range in price from $9.42 to $50.69 per share.

7. Stockholders Equity

(In millions)	Shares	Common Stock (i)	Paid in Capital	Treasury Shares	Retained Earnings
Balance at September 30, 1984	134.9		$360.0		$ 795.5
Exercise of stock options, net	.7		10.1		
Common stock repurchase (ii)	(6.2)		(114.4)		
Dividends ($.30 per share)					(39.8)
Net income					173.5
Balance at September 30, 1985	129.4		255.7		929.2
Exercise of stock options, net	1.3		27.5		
Dividends ($.315 per share)					(41.0)
Net income					247.3
Balance at September 30, 1986	130.7		283.2		1,135.5
Allocation of Paid in Capital to Common Stock (i)		$13.1	(13.1)		
Exercise of stock options, net	1.1	.1	32.0		
Common stock repurchase (ii)	(.1)			$(8.1)	
Dividends ($.32 per share)					(42.0)
Net income					444.7
Balance at September 30, 1987	131.7	$13.2	$302.1	$(8.1)	$1,538.2

(i) The Company reincorporated in Delaware in February, 1987 and authorized stock having a $0.10 par value.
(ii) Under a program to repurchase up to 14.0 million shares, the Company has repurchased shares of common stock at prevailing market prices. Shares reacquired since the Company reincorporated are being held as treasury stock.

8. Detail of Certain Balance Sheet Accounts

(In millions)	1987	1986
Accounts and Notes Receivable		
Trade, net of allowances	$339.1	$227.9
Notes and other	481.6	90.4
	$820.7	$318.3
Accounts Payable, Payroll and Other Accrued Liabilities		
Accounts payable	$298.6	$197.5
Payroll and employee benefits	137.2	115.9
Other	28.5	26.4
	$464.3	$339.8
Unearned Deposits and Advances		
Epcot Center participation fees	$110.6	$ 99.8
Other	82.6	101.2
	$193.2	$201.0

9. Business Segments

(In millions)	1987	1986	1985
Capital Expenditures			
Theme parks and resorts	$ 249.1	$ 160.0	$ 155.0
Filmed entertainment	15.7	4.5	12.2
Consumer products	1.0	.3	
Corporate	14.3	9.3	5.5
	$ 280.1	$ 174.1	$ 172.7
Depreciation Expense			
Theme parks and resorts	$ 134.0	$ 113.4	$ 104.2
Filmed entertainment	5.5	5.0	4.2
Consumer products	.2	.2	.1
Corporate	3.4	2.0	1.1
	$ 143.1	$ 120.6	$ 109.6
Identifiable Assets			
Theme parks and resorts	$2,291.3	$2,158.0	$2,087.5
Filmed entertainment	483.0	413.3	299.1
Consumer products	30.6	25.0	15.3
Corporate	549.2	121.2	99.4
	3,354.1	2,717.5	2,501.3
Discontinued operations	452.2	403.5	396.0
	$3,806.3	$3,121.0	$2,897.3
Supplemental Revenue Data–Theme Parks and Resorts			
Admissions and rides	$ 757.4	$ 607.1	$ 480.7
Merchandise	428.4	353.2	311.5
Food	336.0	288.7	247.4
Other	312.4	274.9	217.9
	$1,834.2	$1,523.9	$1,257.5

10. Discontinued Operations

In September, 1987, the Company sold the net assets of its Community Development segment for approximately $400 million comprised of cash, notes and other receivables. The notes are due through December, 1987. Included in discontinued operations is a gain on sale of $26.6 million, net of income taxes of $3.3 million. Revenues of the Community Development segment were $263.2 million, $305.1 million and $315.3 million in 1987, 1986 and 1985, respectively.

11. Announced Acquisitions

On April 14, 1987, the Company signed a definitive agreement with RKO General, a subsidiary of Gen Corp, and Fidelity Television, Inc., to acquire the television station KHJ-TV, Los Angeles, for approximately $320 million. The acquisition is contingent upon the approval of the Federal Communications Commission.

On September 28, 1987, the Company entered into a joint venture agreement providing for the acquisition of Wrather Corporation, whose primary assets include the Disneyland Hotel complex in Anaheim, California, for approximately $150 million. The Company has a 50% interest in the joint venture and, under certain circumstances, may be required to sell its interest or acquire the other 50% interest. The acquisition is subject to approval of the majority of Wrather's stockholders, which is expected to occur on or about December 31, 1987.

12. Contingencies

The Company (together with, in some instances, certain of its directors and officers) is a defendant or co-defendant in various legal actions involving antitrust, copyright, breach of contract and various other claims incident to the conduct of its businesses and legal actions related to the acquisition of Arvida and the Company's repurchase of its common stock from Reliance Insurance Company. Management does not expect the Company to suffer any material liability by reason of such actions.

QUARTERLY FINANCIAL SUMMARY
(In millions, except per share data)

	December 31	March 31	June 30	September 30
1987				
Revenues	$660.9	$706.0	$751.3	$758.6
Operating Income	154.6	187.3	233.5	201.4
Income From Continuing Operations	71.8	88.0	121.9	110.6
Discontinued Operations, Net	18.0	3.2	6.5	24.7
Net Income	89.8	91.2	128.4	135.3
Earnings Per Share				
Continuing Operations	.53	.64	.88	.80
Total	.66	.66	.93	.98
Dividends Per Share	.08	.08	.08	.08
Market Price Per Share				
High	46 3/8	65	73 3/4	82 1/2
Low	39 1/2	44	59 1/2	67 7/8
1986				
Revenues	$436.5	$522.6	$578.8	$627.9
Operating Income	81.6	123.4	167.2	155.5
Income From Continuing Operations	28.5	49.5	74.1	61.1
Discontinued Operations, Net	6.2	2.3	5.6	20.0
Net Income	34.7	51.8	79.7	81.1
Earnings Per Share				
Continuing Operations	.21	.36	.54	.45
Total	.26	.38	.58	.59
Dividends Per Share	.075	.08	.08	.08
Market Price Per Share				
High	29 3/8	38	54 7/8	54 3/4
Low	20 3/4	28 1/8	35 1/4	36

SELECTED FINANCIAL DATA

(In millions, except Per Share Data and Other Data)

	1987	1986	1985	1984	1983
Statement of Income Data					
Revenues	$2,876.8	$2,165.8	$1,700.1	$1,451.6	$1,307.4
Operating income	776.8	527.7	345.7	241.8	213.1
Interest expense	29.1	44.1	54.6	41.4	17.9
Income (loss) from continuing operations	392.3	213.2	132.3	(6.3)[1]	93.2
Net income	444.7	247.3	173.5	97.8[2]	93.2
Balance Sheet Data					
Total assets	$3,806.3	$3,121.0	$2,897.3	$2,739.4	$2,381.2
Borrowings	584.5	547.2	823.1	861.9	352.6
Stockholders equity	1,845.4	1,418.7	1,184.9	1,155.5	1,400.5
Statement of Changes in Financial Position Data					
Cash provided by continuing operations	$830.6	$668.4	$518.8	$378.1	$337.4
Investment in entertainment attractions and other property	280.1	174.1	179.8	187.6	333.7
Investment in film production costs	178.3	203.7	149.9	127.6	83.8
Per Share Data					
Net income					
Continuing operations	$2.85	$1.57	$ .98	$ .49	$ .68
Total	3.23	1.82	1.29	.68	.68
Cash dividends	.32	.315	.30	.30	.30
Other Data					
Stockholders at close of year	101,000	77,000	58,000	62,000	60,000
Employees at close of year	30,000	30,000	30,000	28,000	30,000

(1) Includes $166.0 million related to unusual charges.

(2) Includes $76.1 million related to a change in accounting for investment tax credits.

BOARD OF DIRECTORS

Caroline Leonetti Ahmanson*†
Chairman Emeritus
Federal Reserve Bank of
San Francisco – 12th District

Roy E. Disney
Vice Chairman
The Walt Disney Company

Michael D. Eisner††
Chairman and Chief Executive Officer
The Walt Disney Company

Stanley P. Gold
President and Chief Executive Officer
Shamrock Holdings, Inc.

Ignacio E. Lozano, Jr.*†
Editor-in-Chief, *LA OPINION*

Sharon Disney Lund*
Vice Chairman
Retlaw Enterprises, Inc.

Richard A. Nunis††
President
Walt Disney Attractions

Irwin E. Russell†
Attorney at Law

Donn B. Tatum*
Former Chairman and Chief Executive Officer
The Walt Disney Company

E. Cardon Walker
Former Chairman and Chief Executive Officer
The Walt Disney Company

Raymond L. Watson††
Vice Chairman
The Irvine Company

Frank G. Wells††
President and Chief Operating Officer
The Walt Disney Company

Samuel L. Williams*†
Senior partner
Hufstedler, Miller, Carlson & Beardsley

Gary L. Wilson††
Executive Vice President and Chief Financial Officer
The Walt Disney Company

DIRECTOR EMERITUS

Joseph F. Cullman 3rd

*Member of Audit Review Committee
†Member of Compensation Committee
††Member of Executive Committee

CORPORATE EXECUTIVE OFFICERS

Michael D. Eisner
Chairman of the Board and Chief Executive Officer

Frank G. Wells
President and Chief Operating Officer

Roy E. Disney
Vice Chairman of the Board

Gary L. Wilson
Executive Vice President and Chief Financial Officer

Joe Shapiro
Senior Vice President – General Counsel

John H. Forsgren
Vice President – Treasurer

Neil R. McCarthy
Vice President – Planning and Control

Lawrence P. Murphy
Vice President – Strategic Planning

Erwin D. Okun
Vice President – Corporate Communications

Doris A. Smith
Vice President and Secretary

PRINCIPAL BUSINESSES WITH CHIEF EXECUTIVES

Disney Consumer Products
Barton K. Boyd

Disney Development Company
Peter S. Rummel

Euro Disneyland
Robert J. Fitzpatrick

Walt Disney Attractions
Richard A. Nunis

Walt Disney Imagineering
Martin A. Sklar

The Walt Disney Studios
Jeffrey Katzenberg
Richard H. Frank

The Disney Channel
John F. Cooke

Credits
Photographers: Gary Krueger, Barbara DuMetz, Renie Bardeau, Bill Marshall, Steve Powell, Bonnie Schiffman, Ken George, Laurel Moore, Sharon Beard, Sidney Baldwin, Bon Giovanni, Wayne Williams, Laurence Somma, Steve Shapiro, Roget Prigent, Tony Esparza, Michaelin McDermott, Mark Shepard, Charles Imstetf, Jerry Schneider.
Illustrators: cover, pages 4, 12, 22, 26, 28 and 30 Paul Wenzel; pages 1 and 3 Cliff Spohn.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1987 — Commission file number 1-4083

The Walt Disney Company

Incorporated in Delaware
500 South Buena Vista Street, Burbank, California 91521
(818) 840-1000

I.R.S. Employer Identification
No. 95-0684440

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
The Walt Disney Company Common Stock $.10 par value	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc. Swiss Stock Exchanges Tokyo Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes. ✓.. No .....

As of November 30, 1987, the aggregate market value of the registrant's common stock held by non-affiliates (based on the closing price on such date as reported on the New York Stock Exchange—Composite Transactions) was approximately $5.4 billion. All officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect of the registrant's common stock have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

There were 131,214,127 shares of common stock outstanding as of November 30, 1987.

Documents Incorporated by Reference

Portions of the Annual Report to Stockholders for the year ended September 30, 1987 are incorporated by reference into Parts I and II.

Portions of the Proxy Statement for the 1988 Annual Meeting of Stockholders are incorporated by reference into Part III.

Portions of the Prospectus contained in Part I of Post-Effective Amendment No. 1, dated July 22, 1986, of Registration Statement No. 33-1884 on Form S-8 are incorporated by reference into Part IV.

PART I

ITEM 1. Business

The Walt Disney Company, together with its subsidiary companies (the Company), is a diversified international company engaged in family entertainment with operations in three business segments: Theme Parks and Resorts, Filmed Entertainment and Consumer Products. During 1987, the Company sold the net assets of its Community Development segment. Regarding this sale, note 10 of Notes to Consolidated Financial Statements on page 45 of The Walt Disney Company Annual Report to Stockholders for the year ended September 30, 1987 (1987 Annual Report to Stockholders) is hereby incorporated by reference. The information regarding revenues, operating income and identifiable assets of the Company's business segments appearing in the Consolidated Statement of Income on page 35 and in Note 9 of Notes to Consolidated Financial Statements on page 45 of the 1987 Annual Report to Stockholders is hereby incorporated by reference. During 1987, the Company changed its state of incorporation from California to Delaware. The Company employs approximately 30,000 people.

THEME PARKS AND RESORTS

The Company operates the Disneyland Park in California and the Walt Disney World destination resort in Florida. The Walt Disney World Complex includes the Magic Kingdom and Epcot Center theme parks, hotels, villas, a shopping village, a conference center, campgrounds, golf courses and other recreational facilities. The Company receives royalties on revenues generated by the Tokyo Disneyland theme park. The Company has under development Euro Disneyland near Paris, France.

While the Disneyland Park and the Walt Disney World Complex are operated on a year-round basis, historically the greater part of their business is in the Spring and Summer seasons, with other peak periods during Christmas, Easter and other holiday periods. Supplemental revenue data for the theme parks and resorts segment for the three fiscal years ended with 1987 appearing in Note 9 on page 45 of the 1987 Annual Report to Stockholders is hereby incorporated by reference.

Walt Disney World Complex

The Company owns approximately 28,000 acres of land located 15 miles southwest of Orlando, Florida. The Walt Disney World Complex includes the Magic Kingdom, Epcot Center and Disney-MGM Studio Tour (currently under construction) theme parks and a variety of other facilities designed to attract visitors for an extended stay by offering them a wide range of recreational activities for the entire family. The Company markets the entire Walt Disney World Complex through a variety of national and local advertising and promotional activities.

Magic Kingdom

The Magic Kingdom consists of six principal areas designated as Main Street, Liberty Square, Frontierland, Tomorrowland, Fantasyland and Adventureland. Each of these areas features themed rides and attractions, restaurants, refreshment stands and souvenir shops. A number of the Magic Kingdom attractions are sponsored by corporate participants.

Epcot Center

Epcot is an acronym for Experimental Prototype Community of Tomorrow. Epcot Center consists of two major themed areas: Future World and World Showcase. Future World dramatizes certain historical developments and addresses the challenges facing the world today. World Showcase presents a community of nations focusing on the culture, traditions and accomplishments of people around the world. It includes as a central showpiece the American Adventure pavilion, which highlights the history of the American people. Other nations represented are Canada, Mexico, Japan, China, France, the United Kingdom, Italy, Germany, Morocco and Norway (scheduled to open in 1988). A number of the attractions at Epcot Center are sponsored by corporate participants, including General Motors (World of Motion), Exxon (Universe of Energy), Kraft (The Land), AT&T (Spaceship Earth), American Express and Coca-Cola (the American Adventure), General Electric (Horizons), Kodak (Journey into Imagination), Sperry (Epcot Computer Central in CommuniCore), United Technologies (The Living Seas) and Metropolitan Life Insurance (Wonders of Life, scheduled to open in 1989). Epcot Center is linked to the Magic Kingdom by monorail.

Disney-MGM Studio Tour

Construction is continuing on the Disney-MGM Studio Tour, a third, separately gated facility at the Walt Disney World Complex which will offer entertainment experiences and function as a working film studio.

Production facilities, scheduled to open in 1988, will complement the Company's Burbank studio operations. The Studio Tour is scheduled to open in 1989. MGM is not a partner in the Studio Tour attractions, but the Company has licensed rights to the MGM-UA Entertainment Co. name and portions of the film library, and is authorized to use logos, film excerpts and other memorabilia as part of the Studio Tour.

Resort Hotels and Walt Disney World Village

The Company owns and operates three resort hotels at the Walt Disney World Complex having a present capacity of approximately 2,200 rooms, as well as the Fort Wilderness camping and recreational area having a present capacity of approximately 1,200 sites. The average occupancy rate for 1987 for the three resort hotels and Fort Wilderness was 95% and 85%, respectively.

The Company has also developed approximately 1,200 acres known as the Walt Disney World Village, which includes 576 units of vacation, treehouse and fairway villas, a unique shopping facility, a complete clubhouse facility and a conference center. The Walt Disney World Conference Center consists of conference rooms and banquet facilities. The occupancy rates for all villas averaged 88% for 1987.

The occupancy rates for the Company's resort hotels, Fort Wilderness and villas have not varied substantially over the past five years. The Company is continuing to expand hotel room and villa capacity. The Company has commenced construction on the 900 room Grand Floridian Beach Resort, located near the Magic Kingdom and scheduled to open in 1988, and the 2,100 room Caribbean Beach Resort, located near Epcot Center, the first phase of which is scheduled to open in 1988.

In 1988, a new nighttime entertainment center, *Pleasure Island,* will open adjacent to the Walt Disney World Village. A new water park attraction, Typhoon Lagoon, is currently under construction on 50 acres and will include a 95-foot mountain with nine water slides.

At the Walt Disney World Village Hotel Plaza, seven major hotels are situated on property leased from the Company. These hotels have a capacity of approximately 3,500 guest rooms.

Recreational activities include three championship golf courses, tennis, sailing, water skiing, swimming, horseback riding and a number of noncompetitive sports and leisure time activities.

Disneyland Park

The Company owns 320 acres and has under long term lease an additional 24 acres of land in Anaheim, California. Disneyland Park consists of seven principal areas: Fantasyland, Adventureland, Frontierland, Tomorrowland, New Orleans Square, Main Street and Bear Country. Each of these areas features themed rides and attractions, restaurants, refreshment stands and souvenir shops. A number of the Disneyland Park attractions are sponsored by corporate participants. The Company markets new attractions as well as the entire Disneyland Park through national and local advertising and promotional activities. New attractions in 1987 include *Star Tours,* co-produced with George Lucas, which is the first attraction to introduce computer programmed flight simulator technology to the park guests. Currently under construction is Splash Mountain, a log-flume ride based on the characters of the Disney classic film, *Song of the South.* This attraction is scheduled to open in 1989.

Tokyo Disneyland

The Company receives royalties on certain revenues generated by the Tokyo Disneyland theme park, which is owned and operated by Oriental Land Co., Ltd., an unrelated Japanese corporation. The park is similar in size and concept to Disneyland Park and is located approximately 6 miles from downtown Tokyo, Japan.

Euro Disneyland

In March 1987, the Company signed an agreement with governmental authorities in France to develop Euro Disneyland on a site approximately twenty miles east of Paris, France. Plans for the project include a Magic Kingdom, as well as a resort, residential and commercial complex. It is expected that the first elements of the project, including the Magic Kingdom, will become operational in 1992. The Company is in the process of financing the Euro Disneyland owner company, in which Disney will also be an equity investor. The Company will receive substantial royalties and management fees as the operator of the facilities.

Walt Disney Imagineering and Disney Development Company

The Company provides, through its subsidiaries, Walt Disney Imagineering and Disney Development Company, master planning, real estate development, show design, engineering support, production support, project management, environmental support, and research and development services for the Disney theme parks and The Walt Disney Studios.

Competitive Position

The Company's theme parks and resorts compete with all other forms of entertainment and recreational activities. Various factors influence profitability of the industry which are not directly controllable, such as economic conditions, amount of available leisure time, oil prices and weather patterns. The Company believes its theme parks and resorts benefit substantially from the Company's reputation in the entertainment industry for excellent quality and from synergism with activities in other business segments of the Company.

FILMED ENTERTAINMENT

The Company produces and acquires live action motion pictures and produces animated motion pictures for distribution to the theatrical, television and home video markets. The Company also produces original television product for the network and first run syndication markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and primarily through independent distribution companies throughout the rest of the world. The Company provides programming for and operates The Disney Channel, a pay television programming service.

Theatrical Films

Walt Disney Pictures and Television, a wholly-owned subsidiary of the Company, produces live action and animated motion pictures under the Walt Disney Pictures name and live action motion pictures under the Touchstone Pictures name. Films produced and released under the name of Walt Disney Pictures are designed to appeal to family audiences. Films produced and released under the name of Touchstone Pictures are designed to appeal principally to the teenage and adult segments of the public.

The Company produces two to four live action family features each year and a full-length animated film every twelve to eighteen months under the Walt Disney Pictures name, and seven to ten films under the name of Touchstone Pictures. In addition, certain animated films from the Company's library have been and will continue to be reissued on a regular basis.

The Company's film library at September 30, 1987 included approximately 150 full-length live action (primarily color) features, 26 full-length animated color features, and approximately 500 cartoon shorts.

In fiscal 1987, films released under the name of Touchstone Pictures included *Tough Guys, The Color of Money, Outrageous Fortune, Tin Men, Ernest Goes to Camp, Adventures in Babysitting, Can't Buy Me Love* and *Stakeout. Benji the Hunted* was released under the Walt Disney Pictures name in 1987 along with reissues of *Song of the South, Lady and the Tramp, The Aristocats* and *Snow White and the Seven Dwarfs.*

All of the Company's theatrical feature motion pictures are distributed in the United States and Canada by a wholly-owned subsidiary, Buena Vista Pictures Distribution, Inc. International distribution is handled primarily by independent distribution companies. During 1987, the Company entered into an agreement with Warner Bros. International, whereby Warner Bros. would distribute the Company's theatrical films in substantially all markets outside the U.S. and Canada.

During 1987, the Company entered into certain joint venture and distribution agreements with Silver Screen Partners III, an unrelated limited partnership (Silver Screen III), which raised approximately $270 million in net proceeds from a public offering. Silver Screen III will use these proceeds to fund the cost of the Company's theatrical films into 1988. Through 1987, Silver Screen Partners II, another unrelated limited partnership, had funded approximately $170 million of film production.

Network Television

In 1985, the Company debuted a prime time situation comedy series, *Golden Girls,* distributed by Touchstone Television, and two animated cartoon series for Saturday morning, *The Adventures of the Gummi Bears* on NBC and *The Wuzzles* on CBS, distributed by Walt Disney Television.

In fiscal 1986, Walt Disney Television presented an anthology series on ABC on Sunday evenings entitled *The Disney Sunday Movie.* Series presented in 1987, and renewed in 1988, included *Golden Girls, The Adventures of the Gummi Bears* and *The Disney Sunday Movie.* A variety of prime time specials have also been shown on network television during the past three years. Following their domestic network presentation, certain television programs have been syndicated by the Company abroad and at present are being telecast regularly in a number of countries.

The Company believes that its television programs complement the exploitation and marketing of its theatrical motion pictures, the Walt Disney World Complex, the Disneyland Park and other businesses.

Television Syndication

In 1985, the Company formed a new subsidiary, Buena Vista Television Inc., which licenses the theatrical and television film library to the domestic television syndication market. Major packages of the Company's feature films and television programming have been licensed for broadcasting commencing in the fall of 1986 and continuing over several years. The feature film package includes twenty-one motion pictures and four made-for-television movies. The television program package includes 178 hours of animated, live action, adventure and true-life films. Sales of other feature film packages are planned for 1988 and subsequent years.

The Company also produces first run syndication programming. In 1987, *Siskel & Ebert* was presented in a weekly half hour show. In the fall of 1987, the Company syndicated two new series airing five days a week: an animated cartoon series, *DuckTales;* and a game show based on charades, *Win, Lose or Draw.*

Certain of the Company's television programs are also syndicated by the Company abroad. At present, the Company's television programs are being telecast regularly in many countries including Australia, Brazil, Canada, China, France, Germany, Italy, Japan, Mexico, Spain and the United Kingdom.

Home Video and Pay Television

The Company distributes selected Walt Disney Pictures and Touchstone Pictures product in the domestic and foreign home video markets. Approximately 129 titles, including 36 feature films and 36 cartoons and animated featurettes, are now available to the home entertainment market with additional programming scheduled. For the 1986 Christmas season, the Company released in the domestic home video market its animated classic *Sleeping Beauty.* For the 1987 Christmas season the Company will release *Lady and the Tramp.*

In 1985 and 1986, the Company made available a number of feature films to pay television services, including its wholly-owned subsidiary, The Disney Channel. In April, 1986, the Company negotiated an agreement with Showtime/The Movie Channel to exclusively broadcast Touchstone Pictures and selected Walt Disney Pictures films over the next five years.

The Disney Channel

The Disney Channel is the Company's nationwide pay television service which provides 24 hours of family entertainment daily. New shows developed solely for original use by The Disney Channel include dramatic, adventure, comedy and educational series, as well as documentaries and first-run television movies. In 1988, The Disney Channel will present a weekly half hour situation comedy series with Carol Burnett. In addition, entertainment specials include shows originating from both the Walt Disney World Complex and the Disneyland Park. The balance of the programming consists of products acquired from third parties and products from the Walt Disney theatrical film and television programming library.

Competitive Position

The Company's filmed entertainment businesses — theatrical films, television programming, product exploited through the network, syndication and pay television and home video markets, and The Disney Channel's pay programming service — compete with all forms of entertainment. The Company also competes to obtain creative talents, story properties and market share, which are essential to the success of the Company's filmed entertainment businesses.

A significant number of companies produce and/or distribute theatrical and television films, exploit products in the home video market and provide pay television programming service. The Company produces and distributes films designed for family audiences and believes that it is a significant source of such films. In the past, the animated feature-length films of the Company have been preeminent and, with respect to these films, the Company has not experienced significant competition. The success of all of the Company's theatrical motion pictures and television programming is heavily dependent upon public taste, which is unpredictable and susceptible to change without warning.

CONSUMER PRODUCTS

The Company licenses and distributes throughout the world the name Walt Disney, its characters, its literary properties and its songs and music to various consumer manufacturers, retailers, printers and publishers. It also produces audio products primarily for the children's market and produces film, audio and computer software products for the educational market. Foreign operations, which include 10 subsidiaries and 18 marketing offices throughout the world, account for about 45% of the total revenues for Consumer Products.

Merchandising and Publications Licensing

The Company's licensing activities generate royalties which are usually based on a fixed percentage of the wholesale or retail selling price of the licensee's products. Merchandise categories which have been licensed include apparel, toys, gifts, housewares, stationery, and domestic items such as sheets and towels. Publication categories which have been licensed include continuity-series books, book sets, art and picture books, comic books, magazines and newspaper comic strips. The Walt Disney name and characters have been used in major promotions involving soft drinks, photographic products and fast-food restaurants, among others.

In addition to receiving licensing fees, the Company is actively involved in the creation and design of licensed merchandise and in the concept development, writing and illustration of licensed publications. The Company also continually seeks to create new characters to be used in licensed products. New characters which were created and licensed in recent years include Disney Babies, Gummi Bears, Wuzzles and Totally Minnie (an updated 1980's version of Minnie Mouse).

The Company also earns revenue and income from supplying premium items to companies for use in their promotional campaigns. These items are usually, although not exclusively, based on the Disney characters or name.

Records and Music Publishing

The Company produces, manufactures and distributes records, audio cassettes and compact discs. The Company also publishes print music exploiting the song copyrights created for the Company's records, films and television programs, and develops new songs. In addition to producing and selling a full line of Disney titles, the division represents a number of outside properties, including Alf and The Chipmunks.

Domestic retail sales are the largest source of revenues and represent about ten million records, audio cassettes and related materials sold annually. Direct marketing, utilizing catalogs, coupon packages and television, is a growing means of distribution for the division. International licensing consists of over 30 licensees outside the United States who produce and distribute Disney-based products in about 60 countries and 18 languages.

Educational Products

The Company produces audio-visual materials for the educational market. These materials include 16 millimeter films, video cassettes, filmstrips, computer software, read-alongs, posters, and other teaching aids. In 1987, the Company signed an agreement with Simon and Schuster to exclusively distribute the Company's educational products over the next six years, with the exception of the computer software business.

The Company currently has about 340 titles in its library and produces about 35 to 40 new titles in film and video format and 10 to 15 new filmstrip sets each year. Program content ranges from general guidance topics to specific academic subjects, such as reading or spelling, and is based on both Disney and non-Disney material.

Disney Stores

In 1987, the Company opened three retail Disney Stores in California. The stores carry a wide variety of Disney merchandise and promote other businesses of the Company. Additional stores in selected markets throughout the country will be opened in the future.

Competitive Position

The Company competes in its character merchandising and other licensing activities with other licensors of characters, brand and celebrity names, entertainment and other licenseable properties. The Company competes with several other companies in the record and music publishing business and, although public information is limited, the Company believes it is the largest worldwide producer/distributor of children's audio product. The Company believes that it is one of the principal sources of educational films and materials for school use.

ITEM 2. Properties

The Walt Disney World Complex and Disneyland Park properties are described in Item 1 under the caption *Theme Parks and Resorts.* Film library properties are described in Item 1 under the caption *Filmed Entertainment.*

The Company's studio facilities provide for the production of both live action and animated motion pictures and television product. The Company owns approximately 44 acres of land in Burbank, California on which are located its studios and executive offices. In addition, the Company leases office and warehouse space for certain of its studio and corporate activities.

It is the Company's practice to obtain United States and foreign legal protection for its theatrical and television product and its other original works, including the various names and designs of the animated characters and the publications and music which have been created in connection with the Company's filmed product. The Company owns all rights to the name, likeness and portrait of Walt Disney.

ITEM 3. Legal Proceedings

The Company and various of its subsidiaries are parties to certain legal proceedings which are of the type incident to the businesses of the entities involved; in particular:

(1) On or about February 5, 1986, an action entitled *Tishman Realty and Construction Co., Inc., et al. v. Walt Disney Productions, et al.,* was commenced against the Company in the Circuit Court for Orange County, Florida. Plaintiffs allege breach of contract, fraud, and conspiracy in connection with an agreement relating to the construction of hotel and convention facilities at the Walt Disney World Complex, seeking damages in excess of one billion dollars. All proceedings have been stayed since on or about April 16, 1986. Management does not expect the Company to suffer any material liability by reason thereof.

(2) The Company, together with a number of major motion picture production companies or their parent corporations, the Motion Picture Association of America (of which the Company is a member), and a number of manufacturers or distributors of electronics equipment is party to *Go Video. Inc. v. The Motion Picture Association of America. et al.* commenced on or about June, 1987, in the United States District Court for the District of Arizona. Plaintiff claims the existence of a conspiracy in violation of federal antitrust laws to prevent the manufacture and distribution of dual-deck video cassette recorders. The Plaintiff alleges its belief that it has been damaged in excess of $250 million. Management does not expect the Company to suffer any material liability by reason thereof.

The Company is party to *Denenberg, et al. v. Wrather Corp., et al.* commenced in or about October, 1987 in the Court of Chancery of the State of Delaware in and for New Castle County. Plaintiff, allegedly a stockholder of Wrather Corp. ("Wrather"), claims breach of fiduciary duty against Wrather, its directors, Industrial Equity (Pacific) Limited, and the Company in connection with the Company's agreement to a proposed acquisition of the shares of Wrather, and seeks injuctive relief and damages in an unspecified amount. The proceedings are only in their earliest stages of discovery but, at this time, management has no basis to believe the Company will suffer any material liability in this matter.

The Company is party to *Richard S. Heckmann, et al. v. C. L. Ahmanson, et al.,* the consolidated title of a number of purported stockholder derivative suits and class actions filed in the Superior Court of the State of California during June and July of 1984 plaintiffs allege in their Second Amended Unified and Consolidated Amended and Supplemental Complaint, among other things, breaches of fiduciary duties and waste of corporate assets by the Company and its Board of Directors in connection with the Company's acquisition of Arvida Corporation, the Company's repurchase of 4.2 million of its common shares (pre 1986 four-for-one common stock split) from Reliance Insurance Company (Reliance) and the Company's proposed acquisition of Gibson Greetings, Inc. Plaintiffs seek, among other things, rescission of the Reliance repurchase, an order directing defendants to account for all damages allegedly caused by them, and monetary damages, including exemplary and punitive damages. In February, 1986, Reliance asserted cross-claims against the Company, alleging the Company's failure to abide by the terms of the Reliance repurchase agreement, and seeking substantially similar relief. Management does not expect the Company to suffer any material liability by reason thereof.

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year covered by this report.

Executive Officers of the Company

The executive officers of the Company are elected each year at the organizational meeting of the Board of Directors which follows the annual meeting of the stockholders and at such other meetings as appropriate. Each of the executive officers has been employed by the Company in the position or positions indicated in the list and pertinent notes below. Mr. Okun and Miss Smith have been employed by the Company for over five years.

Name	Age	Title	Executive Officer Since
Michael D. Eisner	45	Chairman of the Board and Chief Executive Officer and Director[1]	1984
Frank G. Wells	55	President and Chief Operating Officer and Director[2]	1984
Roy E. Disney	57	Vice Chairman of the Board and Director[3]	1984
Gary L. Wilson	47	Executive Vice President and Chief Financial Officer and Director[4]	1985
Joe Shapiro	41	Senior Vice President — General Counsel[5]	1985
John H. Forsgren	41	Vice President — Treasurer[6]	1986
Neil R. McCarthy	38	Vice President — Planning and Control[7]	1986
Lawrence P. Murphy	35	Vice President — Strategic Planning[8]	1985
Erwin D. Okun	53	Vice President — Corporate Communications[9]	1984
Doris A. Smith	52	Vice President and Secretary	1978

[1] Mr. Eisner was previously with Paramount Pictures Corp., serving as President until 1984.

[2] Mr. Wells was previously with Warner Bros. Inc., serving as President and Co-Chief Executive Officer until 1981; as Vice Chairman until 1984.

[3] Mr. Disney has been Chairman of Shamrock Holdings, Inc., a company which has been engaged in the ranching, real estate, agricultural processing and energy businesses, and Chairman of the Board of Shamrock Broadcasting, Inc., which is engaged in the operation of radio and television properties.

[4] Mr. Wilson was previously with Marriott Corporation, serving as Executive Vice President and Chief Financial Officer until 1985.

[5] Mr. Shapiro was previously a partner with the law firm of Donovan Leisure Newton & Irvine until 1985.

[6] Mr. Forsgren was previously with Sperry Corporation, serving as staff Vice President of Investor Relations and Deputy Treasurer until 1983; as Vice President and Treasurer until 1986.

[7] Mr. McCarthy was previously with Marriott Corporation as Vice President and Assistant Controller — Planning and Control until 1984, and as Vice President — Finance and Development of Marriott Corporation In-Flight Services Division until 1986.

[8] Mr. Murphy was previously with Marriott Corporation as Director of Corporate Planning until 1983 and as Vice President of Corporate Planning and Business Development until 1985.

[9] Mr. Okun previously served with the Company as Vice President — Public Relations until 1984.

PART II

ITEM 5. Market for the Company's Common Stock and Related Stockholder Matters

The information regarding markets for the Company's Common Stock, quarterly market price ranges, dividends and approximate number of stockholders of record appearing in Stock Exchanges on page 40, Quarterly Financial Summary on page 46 and Selected Financial Data on page 47 of the 1987 Annual Report to Stockholders is hereby incorporated by reference.

ITEM 6. Selected Financial Data

Selected financial data appearing on page 47 of the 1987 Annual Report to Stockholders is hereby incorporated by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Financial information appearing under the captions *Theme Parks* and *Resorts* on page 6, *Filmed Entertainment* on page 17, *Consumer Products* on page 24, and *Financial Review* on pages 33, 34, 36 and 38 of the 1987 Annual Report to Stockholders is hereby incorporated by reference.

ITEM 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company and its subsidiaries, together with the report thereon of Price Waterhouse, appearing on pages 35, 37, 39 and 41 through 45 and supplementary data included in the Quarterly Financial Summary appearing on page 46 of the 1987 Annual Report to Stockholders are hereby incorporated by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Company

Information regarding directors appearing under the caption *Election of Directors* in the Company's Proxy Statement (1988 Proxy Statement) for the 1988 Annual Meeting of Stockholders is hereby incorporated by reference.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

ITEM 11. Executive Compensation

Information appearing under the captions *Directors' Remuneration; Attendance* and *Executive Compensation* in the 1988 Proxy Statement is hereby incorporated by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

Information setting forth the security ownership of certain beneficial owners and management appearing under the captions *Beneficial Ownership of Certain Stockholders* and *Stock Ownership of Directors and Officers* in the 1988 Proxy Statement are hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions

Information regarding certain related transactions appearing under the caption *Related Transactions* in the 1988 Proxy Statement is hereby incorporated by reference.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements:

The following consolidated financial statements of The Walt Disney Company and subsidiaries which are incorporated by reference in Part II, Item 8 are included in Exhibit 13:

- Report of independent accountants
- Consolidated statement of income for years ended September 30, 1987, 1986 and 1985
- Consolidated balance sheet as of September 30, 1987 and 1986
- Consolidated statement of changes in financial position for years ended September 30, 1987, 1986 and 1985
- Notes to consolidated financial statements

Financial statements of joint ventures in which the Company has equity interests have been omitted because they do not constitute significant subsidiaries.

2. Financial Statement Schedules:

- Report of independent accountants
- Schedule II — Amounts receivable from related parties and underwriters, promoters and employees other than related parties
- Schedule V — Property, plant and equipment
- Schedule VI — Accumulated depreciation of property, plant and equipment
- Schedule X — Supplementary income statement information

The schedules other than those listed above are omitted because of the absence of the condition under which they are required, or because the information is set forth in the consolidated financial statements or notes thereto.

3. Exhibits filed as a part of this report are listed in the Exhibit Index, which follows the Financial Statement Schedules referred to above.

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K on September 24, 1987, regarding the sale of the net assets of its community development segment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WALT DISNEY COMPANY
(Registrant)

Date December 17, 1987

By MICHAEL D. EISNER
(Michael D. Eisner, Chairman and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
Principal Executive Officers		
MICHAEL D. EISNER (Michael D. Eisner)	Chairman of the Board and Chief Executive Officer	December 17, 1987
FRANK G. WELLS (Frank G. Wells)	President and Chief Operating Officer	December 17, 1987
Principal Financial and Accounting Officers		
GARY L. WILSON (Gary L. Wilson)	Executive Vice President and Chief Financial Officer	December 17, 1987
NEIL R. McCARTHY (Neil R. McCarthy)	Vice President — Planning and Control	December 15, 1987
Directors		
CAROLINE LEONETTI AHMANSON (Caroline Leonetti Ahmanson)	Director	December 16, 1987
ROY E. DISNEY (Roy E. Disney)	Director	December 16, 1987
MICHAEL D. EISNER (Michael D. Eisner)	Director	December 17, 1987
STANLEY P. GOLD (Stanley P. Gold)	Director	December 16, 1987
IGNACIO E. LOZANO, JR. (Ignacio E. Lozano, Jr.)	Director	December 16, 1987
SHARON DISNEY LUND (Sharon Disney Lund)	Director	December 16, 1987
RICHARD A. NUNIS (Richard A. Nunis)	Director	December 16, 1987
IRWIN E. RUSSELL (Irwin E. Russell)	Director	December 16, 1987
DONN B. TATUM (Donn B. Tatum)	Director	December 16, 1987
E. CARDON WALKER (E. Cardon Walker)	Director	December 16, 1987
RAYMOND L. WATSON (Raymond L. Watson)	Director	December 16, 1987
FRANK G. WELLS (Frank G. Wells)	Director	December 17, 1987
(Samuel L. Williams)	Director	
GARY L. WILSON (Gary L. Wilson)	Director	December 17, 1987

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors
of The Walt Disney Company

Our examinations of the consolidated financial statements referred to in our report dated November 23, 1987 appearing on page 41 of the 1987 Annual Report to Stockholders of The Walt Disney Company, (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an examination of the Financial Statement Schedules listed in Item 14(a)2 of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE

Los Angeles, California
November 23, 1987

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-8 (Nos. 33-1884 and 2-97852) and on Form S-3 (No. 2-95657) of our report dated November 23, 1987, which appears on page 41 of the 1987 Annual Report to Stockholders of The Walt Disney Company which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears above.

PRICE WATERHOUSE

Los Angeles, California
December 21, 1987

THE WALT DISNEY COMPANY AND SUBSIDIARIES

SCHEDULE V — PROPERTY, PLANT AND EQUIPMENT

YEARS ENDED SEPTEMBER 30, 1987, 1986 AND 1985
(In millions)

Description	Balance at Beginning of Year	Additions At Cost	Retirements or Sales	Transfers	Other[1]	Balance at End of Year
1987						
Rides and attractions	$1,219.9		$ 3.4	$ 39.9		$1,256.4
Buildings	646.9	$ 20.6	36.2	18.1		649.4
Equipment, furniture and fixtures	560.5	17.7	22.3	39.7		595.6
Land improvements	285.1	2.1	15.1	4.9		277.0
Leasehold improvements	15.5	1.5	0.6	(0.6)		15.8
	2,727.9	41.9	77.6	102.0		2,794.2
Projects in progress	106.1	274.7	12.5	(102.0)	$ (0.6)	265.7
Land	26.8	2.2	4.0			25.0
	$2,860.8	$318.8	$94.1[2]	$ 0.0	$ (0.6)	$3,084.9
1986						
Rides and attractions	$1,146.4		$ 1.0	$ 74.5		$1,219.9
Buildings	586.5	$ 1.7	1.7	60.4		646.9
Equipment, furniture and fixtures	512.8	19.7	18.4	46.4		560.5
Land improvements	274.5	1.6	2.0	11.0		285.1
Leasehold improvements	11.0	4.4	.1	.2		15.5
	2,531.2	27.4	23.2	192.5		2,727.9
Projects in progress	144.2	158.8		(192.5)	$ (4.4)	106.1
Land	28.3	.7	2.2			26.8
	$2,703.7	$186.9	$25.4	$ 0.0	$ (4.4)	$2,860.8
1985						
Rides and attractions	$1,135.1		$ 4.0	$ 15.3		$1,146.4
Buildings	540.6	$ 6.0	1.9	41.8		586.5
Equipment, furniture and fixtures	464.0	21.6	9.0	36.2		512.8
Land improvements	263.5	4.5	4.7	11.2		274.5
Leasehold improvements	10.7	.1	.5	.7		11.0
	2,413.9	32.2	20.1	105.2		2,531.2
Projects in progress	94.7	156.7		(105.2)	$ (2.0)	144.2
Land	28.8	.5	1.0			28.3
	$2,537.4	$189.4	$21.1	$ 0.0	$ (2.0)	$2,703.7

[1] Prior year costs of conceptual projects abandoned.

[2] Includes $75.4 relating to disposed assets of the Community Development segment.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

SCHEDULE VI — ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

YEARS ENDED SEPTEMBER 30, 1987, 1986 AND 1985
(In millions)

Description	Balance at Beginning of Year	Additions[1]	Retirements or Sales	Balance at End of Year
1987				
Rides and attractions	$339.4	$ 57.5	$ 2.4	$394.5
Buildings	143.2	18.8	3.9	158.1
Equipment, furniture and fixtures	224.4	57.4	13.2	268.6
Land improvements	98.7	12.5	2.6	108.6
Leasehold improvements	6.5	1.5	0.2	7.8
	$812.2	$147.7	$ 22.3[2]	$937.6
1986				
Rides and attractions	$287.8	$ 52.1	$ .5	$339.4
Buildings	126.8	17.3	.9	143.2
Equipment, furniture and fixtures	195.1	42.2	12.9	224.4
Land improvements	86.6	12.3	.2	98.7
Leasehold improvements	5.7	.9	.1	6.5
	$702.0	$124.8	$ 14.6	$812.2
1985				
Rides and attractions	$241.6	$ 49.0	$ 2.8	$287.8
Buildings	111.8	15.2	.2	126.8
Equipment, furniture and fixtures	166.9	35.7	7.5	195.1
Land improvements	74.6	12.0		86.6
Leasehold improvements	5.2	.9	.4	5.7
	$600.1	$112.8	$ 10.9	$702.0

[1] Charged to costs, expenses and overhead accounts.

[2] Includes $8.5 relating to disposed assets of the Community Development segment.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

SCHEDULE II — AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES

YEARS ENDED SEPTEMBER 30, 1987, 1986 AND 1985
(In millions)

Description	Balance at Beginning of Year	Additions	Deductions	Balance at End of Year
1987				
J. Shapiro[1]	$0.6	$0.3	$0.6	$0.3
L. Murphy[1]		0.3		0.3
J. Forsgren[1]		0.2		0.2
C. Bongirno[2]	0.2			0.2
	$0.8	$0.8	$0.6	$1.0
1986				
J. Shapiro[1]		$0.6		$0.6
C. Bongirno[2]	$0.2			0.2
	$0.2	$0.6		$0.8
1985				
C. Bongirno[2]	$0.2			$0.2

[1] Loan secured by a pledge of shares acquired pursuant to the exercise of stock options; interest free and due between six months and five years from date of loan; issued pursuant to Loan Plan for Corporate Officers (see Exhibit (10u) of the 1986 Annual Report on Form 10-K).

[2] Relocation loan secured by first trust deed; interest not to exceed 8% and due in 1989.

SCHEDULE X — SUPPLEMENTARY INCOME STATEMENT INFORMATION

YEARS ENDED SEPTEMBER 30, 1987, 1986 AND 1985
(In millions)

	1987	1986[1]	1985[1]
Maintenance and repairs	$129.5	$131.7	$130.2
Taxes, other than payroll and income taxes:			
Property taxes	33.9	30.9	28.8
Advertising costs	285.7	173.3	124.0

[1] Restated to reflect the disposition of the Community Development segment.

THE WALT DISNEY COMPANY AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit (2)	—	(i) Letter Agreement dated September 10, 1987 by and between The Walt Disney Company, a Delaware corporation, and Arvida/JMB Partners L.P., a Delaware limited partnership, filed as Exhibit 10.4 to Amendment No. 3 to Form S-1 Registration Statement No. 33-14091 dated September 11, 1987 by Registrant Arvida/JMB Partners, L.P. is hereby incorporated by reference; and (ii) Agreement dated January 29, 1987 by and between The Walt Disney Company, a Delaware corporation, and Arvida/JMB Partners, L.P., a Delaware limited partnership, as successor to the rights and obligations of Arvida Acquisition Associates, Ltd., an Illinois limited partnership, filed as Exhibit 10.2 to Form S-1 Registration Statement No. 33-14091 dated May 7, 1987 by Registrant Arvida/JMB Partners, L.P. (formerly JMB/Arvida Partners, L.P.) is hereby incorporated by reference.
Exhibit (3a)	—	Restated Certificate of Incorporation filed as Exhibit (3a) to the Company's Current Report on Form 8-K dated February 26, 1987 is hereby incorporated by reference.
Exhibit (3b)	—	Bylaws of The Walt Disney Company.
Exhibit (4)	—	Long-term borrowing instruments issued by the Company are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of the instruments to the Commission upon request.
Exhibit (10a)	—	(i) Agreement on the Creation and the Operation of Euro Disneyland en France dated March 24, 1987, and (ii) letter relating thereto of Michael D. Eisner, Chairman of The Walt Disney Company dated March 24, 1987 filed as Exhibits 10.b and 10.a, respectively, to the Company's Current Report on Form 8-K filed on April 24, 1987 are hereby incorporated by reference.
Exhibit (10b)	—	(i) Amended and Restated Employment Agreement dated as of September 22, 1984 with Michael D. Eisner filed as Exhibit (10k) to the Annual Report on Form 10-K for the year ended September 30, 1984, (ii) addendum thereto dated as of September 22, 1984 filed as Exhibit (10f) to the Annual Report on Form 10-K for the year ended September 30, 1985 are hereby incorporated by reference, (iii) First Amendment thereto, dated as of November 23, 1987, and (iv) Agreement dated March 1, 1985 with Michael D. Eisner filed as Exhibit 2 to the Quarterly Report on Form 10-Q for the period ended June 30, 1985 is hereby incorporated by reference.
Exhibit (10c)	—	(i) Amended and Restated Employment Agreement dated as of September 22, 1984 with Frank G. Wells filed as Exhibit (101) to the Annual Report on Form 10-K for the year ended September 30, 1984, (ii) addendum thereto dated as of September 22, 1984 filed as Exhibit (10h) to the Annual Report on Form 10-K for the year ended September 30, 1985 are hereby incorporated by reference, (iii) First Amendment thereto, dated as of November 23, 1987, and (iv) Agreement dated March 1, 1985 with Frank G. Wells filed as Exhibit 3 to the Quarterly Report on Form 10-Q for the period ended June 30, 1985 is hereby incorporated by reference.
Exhibit (10d)	—	Settlement Agreement and General Release, dated as of June 8, 1987, between The Walt Disney Company and Charles E. Cobb, Jr. filed as Exhibit (10) to Quarterly Report on Form 10-Q for the period ended June 30, 1987 is hereby incorporated by reference.
Exhibit (10e)	—	(i) Employment Agreement dated January 1, 1977 with Donn B. Tatum filed as Exhibit 4 to the Annual Report on Form 10-K for the year ended September 30, 1977, (ii) amendment thereto dated June 7, 1977 filed as Exhibit 5 to the Annual Report on Form 10-K for the year ended September 30, 1977, (iii) amendment thereto dated August 8, 1980 filed as Exhibit 6 to the Annual Report on Form 10-K for the year ended September 30, 1980 and (iv) amendment thereto dated March 14, 1983 filed as Exhibit (10e) to the Annual Report on Form 10-K for the year ended September 30, 1983, are hereby incorporated by reference.
Exhibit (10f)	—	(i) Employment Agreement dated January 3, 1977 with E. Cardon Walker filed as Exhibit 6 to the Annual Report on Form 10-K for the year ended September 30, 1977, (ii) amendment thereto dated August 8, 1980 filed as Exhibit 5 to the Annual Report on Form 10-K for the year ended September 30, 1980, and (iii) amendment thereto dated March 14, 1983 filed as Exhibit (10h) to the Annual Report on Form 10-K for the year ended September 30, 1983, are hereby incorporated by reference.

INDEX TO EXHIBITS — Continued

Exhibit (10g)	— (i) Contract dated December 14, 1979, with E. Cardon Walker, to purchase a 2% interest in certain motion pictures to be produced by the Company and to acquire an additional 2% profit participation filed as Exhibit 1 to the Annual Report on Form 10-K for the year ended September 30, 1980 and (ii) amendment thereto dated August 8, 1980, filed as Exhibit 3 to the Annual Report on Form 10-K for the year ended September 30, 1980 are hereby incorporated by reference.
Exhibit (10h)	— Settlement Agreement and General Release dated as of October 1, 1984 with Raymond L. Watson filed as Exhibit (10j) to the Annual Report on Form 10-K for the year ended September 30, 1984 is hereby incorporated by reference.
Exhibit (10i)	— Form of employment agreements each dated May 1, 1984 with certain individuals, including Richard A. Nunis and Erwin D. Okun, filed as Exhibit (10v) to the Annual Report on Form 10-K for the year ended September 30, 1984, is hereby incorporated by reference.
Exhibit (10j)	— Borrower's Option for Notes and Underwritten Standby (BONUS) dated as of January 22, 1987 among the Company, Bank of America International Limited, as Agent, and certain financial institutions filed as Exhibit (4a) to Quarterly Report on Form 10-Q for the period ended December 31, 1986 is hereby incorporated by reference.
Exhibit (10k)	— The Walt Disney Company 1984 Stock Incentive Plan, the Rules relating to Stock Options and Stock Appreciation Rights under the 1984 Stock Incentive Plan, The Walt Disney Company 1981 Incentive Plan, the Rules relating to Stock Options and Stock Appreciation Rights under the 1981 Incentive Plan, The Walt Disney Company 1980 Stock Option Plan and The Walt Disney Company 1973 Stock Option Plan, all as set forth as Exhibits 1(a), 1(b), 2(a), 2(b), 3 and 4, respectively, of the Prospectus contained in Part I of Post-Effective Amendment No. 1, dated July 22, 1986, of Registration Statement No. 33-1884 on Form S-8 are hereby incorporated by reference.
Exhibit (10l)	— The Walt Disney Company 1987 Stock Incentive Plan and the Rules relating to Stock Options and Stock Appreciation Rights under the 1987 Stock Incentive Plan.
Exhibit (10m)	— Contingent Stock Award Rules under the Company's 1984 Stock Incentive Plan filed as Exhibit (10t) to the Annual Report on Form 10-K for the year ended September 30, 1986 is hereby incorporated by reference.
Exhibit (10n)	— Loan Plan for Corporate Officers filed as Exhibit (10u) to the Annual Report on Form 10-K for the year ended September 30, 1986 is hereby incorporated by reference.
Exhibit (10o)	— 1987 Salary Deferral Plan.
Exhibit (10p)	— The Walt Disney Company and Associated Companies Key Employees Deferred Compensation and Retirement Plan, as amended and restated, effective May 1, 1984 filed as Exhibit (10u) to the Annual Report on Form 10-K for the year ended September 30, 1985 is hereby incorporated by reference.
Exhibit (10q)	— Supplemental Medical and Group Term Life Insurance Plan (summary plan description) filed as Exhibit (10x) to the Annual Report on Form 10-K for the year ended September 30, 1985 is hereby incorporated by reference.
Exhibit (10r)	— Group Personal Excess Liability Insurance Plan (summary plan description) filed as Exhibit (10z) to the Annual Report on Form 10-K for the year ended September 30, 1986 is hereby incorporated by reference.
Exhibit (10s)	— Family Income Assurance Plan (summary plan description) filed as Exhibit (10aa) to the Annual Report on Form 10-K for the year ended September 30, 1986 is hereby incorporated by reference.
Exhibit (13)	— Annual Report to Stockholders for the year ended September 30, 1987.
Exhibit (22)	— Subsidiaries of The Walt Disney Company.

The exhibits listed above are filed with the Securities and Exchange Commission but are not included in this booklet. Copies of these exhibits may be obtained by sending a request to Corporate Secretary, The Walt Disney Company, 500 South Buena Vista Street, Burbank, California, 91521.

[THIS PAGE INTENTIONALLY LEFT BLANK]

SECURITY PACIFIC NATIONAL BANK
POST OFFICE BOX 60070
TERMINAL ANNEX
LOS ANGELES, CA 90060

On the cover: The Mickey Mouse who made his screen debut in 1928 bears only a modest resemblance to his 1988 counterpart. Over the years he's changed–from his nose to his clothes–while somehow remaining the same lovable little fellow who starred in "Steamboat Willie," the industry's first sound cartoon. This fall there'll be "the world's largest surprise party," a TV special, motion picture retrospectives, consumer products, parades–even a rock video–to honor the world's most famous mouse on his 60th birthday.